



**GOVERNMENT OF THE REPUBLIC OF MACEDONIA**

**PRE-ACCESSION ECONOMIC PROGRAMME 2008 - 2010**

**Skopje, November 2007**

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## Introduction

### Basis for preparation of Pre-Accession Economic Programme

By acquiring the status of a candidate country in November 2005, the Republic of Macedonia undertook the obligation to submit to the European Commission, annually, a medium-term economic programme. The 2008-2010 Pre-Accession Economic Programme (PEP) is the second document prepared by the Government of the Republic of Macedonia, covering the macroeconomic trends and projections in the country, precisely presenting the public finances and the policies for their improvement, as well as the structural reforms necessary for attaining dynamic economic growth.

Basis for the preparation of this document is the 2007-2009 PEP, with a special attention to the comments submitted by the European Commission, as well as to the activities defined in the 2007 Accession Partnership. In addition, strong attention is paid to the fiscal sphere in terms of better presentation of data and trends, as well as improvement of the process of fiscal planning necessary for more purposeful and efficient utilisation of public finances. 2008-2010 PEP also contains Action Plan for implementation of ESA 95 Accounting Standards. In order to ensure continuity It has been analysed that policies, measures and activities, proposed in PEP 2006, were realised.

### Contents

Pre-Accession Economic Programme is a comprehensive document on economic policy of the Republic of Macedonia, prepared by the institutions in the country and coordinated by the Ministry of Finance. The Programme focuses on the development and improvement in public finance management, as well as on the numerous structural reforms the Government of the Republic of Macedonia undertakes, all aimed at intensifying the economic growth and development, as well as improving the living standard of the citizens.

The 2008-2010 PEP is aimed at areas being of key importance for development of a functional market economy, mainly in the area of the labour market, including improvement in the active and passive measures, judicial reforms where main objective is the provision of legal safety and acceleration of the court procedures and the work of the regulatory bodies and inspectorates.

The document comprises 6 sections.

*First section* covers the macroeconomic trends and medium-term projections, including detailed analysis of the growth factors.

*Second section* shows the current trends in the field of public finances, as well as the expected medium-term trends in line with the three-year Fiscal Strategy and the Public Debt Strategy. Analysis of the cyclical trajectory of the Macedonian economy is an integral part of the document, as well as the cyclical budget component. Sustainability of public finances is also covered, as well as the improvement of the institutional capacity in this area.

*Third section* encompasses the structural reforms necessary for creating better business climate, as well as the reforms necessary for achieving higher economic growth, i.e. labour market reforms, reforms in the education, judiciary reforms, reforms aimed at strengthening public administration capacity, etc.

*Fourth section* includes specific measures and activities, summarised in a reform matrix, while the *fifth section* covers the fiscal implications, i.e. the necessary financial resources to fulfil the structural reforms.

The last (*sixth*) section in 2008-2010 PEP shows the successful implementation of PEP 2007-2009.

it is expected for the reform activities presented in 2007 PEP to contribute to the intensification of the economic growth and development, acceleration of the process of convergence with the EU member states and improvement of the living standard of the citizens in the Republic of Macedonia.

## 1 MACROECONOMIC TRENDS IN 2006 AND THE FIRST HALF OF 2007

In 2006, as in the previous period, the macroeconomic situation in the Republic of Macedonia was stable, which was reflected through the GDP growth, the fiscal discipline, low inflation rate, balanced external accounts, downward trend of the interest rates, all of which were a solid basis for improved economic growth in the next period. The closer relations with the European Union were also a strong impetus for the institutional capacity strengthening, acceleration of the reforms and achievement of a more dynamic economic growth.

In 2006, **gross domestic product grew by 3.7%**, which is 0.3 percentage points lower than the projections, i.e. a slight slow-down of the economic activities in the Republic of Macedonia. Economic growth was confirmed by the leading indicators, i.e. high export growth (17.6%), strong growth of credits to the private sector (30%), 8% average monthly growth of salaries, the largest investment growth in machines and equipment in the past three years (18%), etc.

Table 1: Gross Domestic Product

	<b>Growth rate</b>		<b>Contribution to growth</b>	
	2005	2006	2005	2006
Agriculture	0,1	4.7	0,0	0,4
Industry	2,7	2.6	0,6	0,6
Construction	0,9	11.3	0,1	0,7
Services	3,7	5.8	1,8	2.9
GDP	4,1	3,7	4,1	3,7

Source: Calculations of the Ministry of Finance on the basis of data from the State Statistics Office

Economic growth in 2006 was accompanied by positive trends in the fiscal area. The **general government budget deficit** in 2006 was 0,6% which is a significant success taking into account that it was an election year when the public expenditures are usually higher. Such policy was strong support to the monetary policy, aimed at a stable foreign exchange rate and further reduction of the interest rates, including the reference rate (interest rate of the central bank bills) and lending interest rates of the commercial banks. At the same time, the debt of the Republic of Macedonia in 2006 significantly declined, whereby the general government debt was 33.6% at the end of the year, a 6.2 percentage points decline.

Growth of the economic activity in 2006 also led to an increase in the volume of the commodities traded, whereby in the analysed period, the export of goods grew by 17.6%, with a simultaneous import growth by around 16.5%. Such trends contributed to an increase of foreign trade deficit compared to 2005. Such situation was largely initiated by the significant rise of oil price on the world stock markets, i.e. the share of oil in the trade deficit is approximately 51%. Significant **inflow on the basis of private transfers** in 2006 contributed to a reduction of the current account deficit to US\$ 24 million which is a decline by US\$ 55 million compared to last year.

Greater import activity and the high inflow of private transfers in the previous period led to reduced deficit of the current account and pressures for appreciation of the denar exchange rate on the foreign exchange market. In order to maintain the stability of the nominal denar exchange rate to the euro, the NBRM made net redemption of foreign currency on the foreign exchange market through foreign exchange transactions.

Such positive trends in the external sector positively reflected on the **level of the foreign exchange reserves** as well. At the end of 2006, foreign currency reserves amounted to EUR 1.4 billion, which compared to the same period in 2005 grew by 25% and is equal to 5.5-month import coverage.

From the aspect of the operational setup of the monetary policy, in 2006 as well, the NBRM implemented a policy of a **fixed exchange rate**, whereby Denar-to-Euro fluctuations were insignificant. Auctions of central bank bills, as well as of Treasury bills issued for monetary purposes, were the only instrument of the monetary policy,

whereby in 2006 the principle “interest rate tender” was applied, meaning market-based interest rates of central bank bills, by bank offers. In conditions of relatively high level of liquidity and higher average demand than the offer of central bank bills, interest rates on the central bank bills declined (average weighted interest rate on central bank bills at the end of 2006 was 5.5%, compared to 8.5% at the end of 2005).

**Average inflation, measured through the costs of living**, was 3.2% on an annual level, which shows certain dynamics of the economic activity (in 2005 the inflation rate was 0.5%). Thus, the Republic of Macedonia continues to maintain a low inflation rate, necessary for a conducive business environment and high-quality projections of macroeconomic trends.

CPI trends in 2006 were different by consumption groups. Growth was noted in the following groups: tobacco and beverages (17.8%), culture and leisure (6.4%), food (2.2%), housing, hygiene and health (2.0%), transport vehicles and services (1.8%) and clothes and footwear (0.2%).

With regard to the performance of the **banking system**, total deposit potential of the banks grew by 26% in 2006, which contributed in exceeding the projected level of M4 money supply. Higher deposit potential of the banks, coupled by the proactive credit policy when utilizing foreign currencies, led to realizing an annual growth rate of credit to the private sector of 27% in 2006. Thereby, it was of great significance that long-term credit to enterprises, i.e. credit aimed at investment activity, realised a high increase.

Real sector performance and economic activity intensification positively reflected on the **social sector**, i.e. on the employment. In 2006, employment (according to the Labour Force Survey) grew by 4.6% compared to 2005, which is in accordance with the data from the Employment Agency, according to which almost 150,815 new working contracts were signed in 2006, 2% more compared to last year. The unemployment rate (ILO definition) was 35.0% at the end of 2006, which was a decline by two percentage points compared to the end of 2005.

Economic performance in the Republic of Macedonia in 2007 is the best in the transition period so far, whereby positive trends are also recorded in all sectors of the economy. Such positive trends point out that the ambitious economic programme of the Government of the Republic of Macedonia, supported by disciplined fiscal policy and consistent monetary policy has already started to give results. In fact, the GDP growth rate in the first half in 2007 was 5.5%, emphasising the importance of diversified growth, i.e. all sectors in the economy realised growth. However, growth was most evident in the service sector, i.e. transport and communications (11.1%), retail and wholesale (14%), civil engineering (5%) and financial intermediation (4.5%).

It is also important to point out that the positive economic trends occurred in conditions of low and **stable inflation**, which was 1.4% in the first nine months in 2007, being 1.1 percentage point lower than the expected. Such deviation is a result of the reduction of the prices of oil and oil derivatives at the beginning of 2007, an unrealised planned increase of the electricity price, a reduction of the price of the central heating, as well as the unchanged price of tobacco products despite the harmonisation of the excise for domestic and foreign cigarettes. Real sector growth is reflected in the external sector as well, whereby in the first seven months in 2007 exports surged by 44.7%, while imports grew by 29.2%, pointing out the real reduction of the trade deficit. Both in the real and the external sector, growth is broad-based, with highest growth achieved in the base metals (93.5%), construction materials (50%), food and beverages (12.5%), clothes (9.3%), production of base metals (83.7%), production of machines and devices (35.1%) and so on. Decline was only noted in the production of oil and oil derivatives as a result of the closing of the Kosovo market for the OKTA Refinery, a problem that had already been overcome by meeting the European standards on oil production. Positive economic trends are also underpinned by the strong increase in the import of investment products and intermediary goods of 33.5%, indicating higher production activity.

Regarding the **social sphere**, effects of the intensified economic activity started to be felt. Thus, the ILO unemployment rate determined in the second quarter of 2007 was 35.0%, which compared to the same period in 2006 is a decline by 1.1 percentage points. At the same time, the number of unemployed persons registered with the Employment Agency at end-July 2007 was 364,351 persons, which is 1.7% decline compared to the end of 2006. At the same time, in the period January – June, average salaries grew in nominal terms by 5.1% and in real terms by 4% which reflects on the growth of personal consumption which is part of the GDP.

Positive trends in the real sector were also supported by the movements in the **monetary sphere**. In fact, in the first seven months of 2007, there was a low, but continuous reduction of the average weighted lending interest rates of the commercial banks, and long-term credit to the corporate sector (funds used for investments) significantly increased (23% in July 2007 compared to the end of 2006), contributing to a great extent to the economic activity.

With regard to the performance of the **banking system**, total deposit potential of the banks grew by 17% in the first half of 2007, whereby higher deposit potential of the banks, coupled by the greater competition in the banking sector (entry of Societe General) and the proactive credit policy led to an annual growth rate of credit to the private sector by 23%. Thereby, long-term credit to businesses grew the most.

Regarding the **public finance**, in the first six months there was stable and prudent administration of the fiscal policy, in line with the concluded arrangement with the International Monetary Fund. Moreover, a significant fiscal reforms were undertaken in 2007, that is the introduction of the 10% flat tax, reduction of VAT for agricultural products from 18% to 5%, as well as, tax cuts for certain products, such as pharmaceuticals and medical aides, computers and computer equipment, sun collectors and public transportation. However, despite the significant tax reforms and cuts in this period, collected tax revenues were by 12%<sup>1</sup> greater than the projections, whereby the profit tax revenues exceeded the projected level by 50%. Such increase in the tax revenues is due to several factors, such as: a significantly increased economic growth at the beginning of the year, a high increase in the profitability of the companies in 2006 (29.7%), as well as the decisive efforts by Public Revenue Office and the Customs Administration for better collection of tax revenues.

Thus, it is quite certain that the highest GDP growth rate in the whole transition period will be realised in 2007 despite the deteriorated terms of trade, i.e. increased prices of raw materials, including the energy, on the world markets. According to the projections, the same trend will continue in the next three years, with positive effects on the living standard of the citizens on the medium term.

### **The Republic of Macedonia and the Maastricht Criteria**

The analysis of the fulfilment of the criteria for accepting the euro as part of the European Economic and Monetary Union presented below, shows that the Republic of Macedonia has a relatively good performance and has achieved considerable macroeconomic stability. More specifically, according to Maastricht Criteria of monetary integration with the Euro zone, a country should have:

- sustainable price stability, in terms of its average annual inflation rate not exceeding 1.5 percentage points of the average rate of the three countries with the lowest inflation;
- sustainable fiscal position, in terms of:
  - planned or current fiscal deficit not exceeding 3% of GDP; and
  - public debt not exceeding 60% of GDP.
- exchange rate stability (secured via membership in the ERM II) in a period of at least 2 years before the membership into the EMU, without devaluation pressures on the domestic currency in relation to the euro or any other currency of a Member State;
- converging long-term interest rates, as a result of the membership in the ERM II, defined as average nominal interest rate to 5 or 10-year government or corporate bond, not exceeding 2 percentage points of the rate of the three EMU members with the lowest inflation.

The analysis of their fulfilment by the Republic of Macedonia is presented in the Table below:

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<sup>1</sup> As of 01.01.2008 corporate income tax and personal income tax will be additionally decreased to 10%

Table 2: Republic of Macedonia and Maastricht Criteria

Criterion	Fulfilled
1. Price stability - three countries with the lowest inflation in 2006 Finland 1.3% Austria 1.7% <u>Netherlands 1.7%</u> average 1.6% + 1.5 p.p. = 3,1% - inflation rate in Macedonia in 2006 3.2%	x
2. Fiscal position • fiscal deficit / GDP = 0.5% • public debt / GDP = 36.8%	√
3. Exchange rate • pegged to the Euro (Deutsch Mark) since October 1995	√
4. Long-term interest rate • long-term government bond (10 year) – average rate of the three countries with the lowest inflation 3.9% + 2 p.p. = 5,9% • long-term government bond (3 year)* - RM 9.6%	x

\* The bond with the longest maturity period in 2006 has 3-year maturity period. Hence, the comparison is not appropriate.

### 1.1 Macroeconomic Framework

The Government of the Republic of Macedonia in 2006 adopted an ambitious economic programme for structural reforms, which is being intensively implemented. The programme is actually a continuity of the reforms set by the previous government, but with a faster pace. Such a programme confirms that despite that the political parties in the Government of the Republic of Macedonia changed, the reform orientation has not only been kept, but also intensified. A fundamental priority of the Government is to stimulate economic growth through development of the private sector, improvement of the investment climate, job creation and hence achieve improvement of the standard of living. Activities resulting from the Accession Partnership were significantly intensified, so as to continue on the road to the full fledged European Union membership.

The Government programme is being implemented through specific and intensive structural reforms, i.e. reforms in the business environment, so as to improve the entry in and exit from the market and creating free competition, strengthening the capacity of the institutions, judiciary reforms so as to accelerate court procedures, health system reforms, labour market reforms, education reforms, as well as public finance management.

There is a general consensus among the political parties on the economic reforms in the Republic of Macedonia, and also a confirmation for the economic performance and reforms by the international financial institutions among which the IMF (confirmed with the arrangement with the IMF which is being successfully implemented), the World Bank (confirmed in the Doing Business Report), as well as Transparency International (progress by 20 positions in 2007).

Such an economic programme has already yielded specific results confirmed with the preliminary data on the Macedonian economy for the first two quarters of 2007.

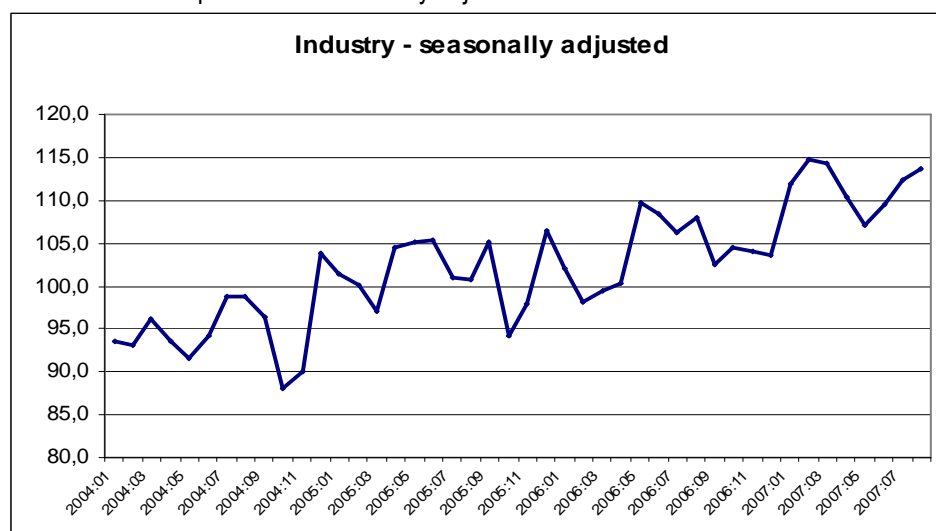
#### Real Sector

Analysed from the **production side of the GDP**, positive growth rates in 2006 were noted by all sectors, whereby especially high growth was registered by the service sectors, Financial Intermediation and Transport and Communications, while the sectors Trade and Hotels and Restaurants registered almost zero growth rate (0.1 or 0.2 percentage points). Still, achievements in the real sector were somewhat lower than the projected due to the low industry growth and the low growth in some services. Thus, in 2006 the industrial production grew by



2,8%, while the average projected annual growth was 4.1%, so this underperformance of industry led to a lower than projected GDP growth for the high share of industry in GDP. The largest contribution to GDP within the industrial production was in the sector of production of other non-metal products (construction materials) with 1.2 percentage points, the sector for production of base metals (0.7 percentage points), and production of oil and oil derivatives. Significant growth was noted in the sector for extracting ore and stone by 28%, as a result of the production resuming in several mines. In 2007, the industrial production grew by 11% in the first quarter and was reduced by 2,8 in the second quarter, therefore the industry growth for the first half of 2007 is 3.7%. Contribution to the growth was again the highest in the industry for base metals and the industry for non-metal products, whereas due to structural problems (loss of one of the key markets by the refinery), the oil and oil derivative sector had a negative contribution to growth.

Chart 1: Industrial production seasonally adjusted



Source: Ministry of Finance

The analysis of the **expenditure side of GDP** shows that again, the largest contributor to the GDP growth in 2006 was domestic consumption with 4.3 percentage points, as well as gross investments with 1.5 percentage points. Within the total consumption, personal consumption grew in real terms by 5.0% (in accordance with higher salaries by 7.3%) and contributed to total growth by 3.9 percentage points, while public expenditure grew in real terms by 2.3% (in accordance with the higher budget deficit by 0.6% which is a decline in regards to the previous year when a 0.3% surplus was registered) and contributed with 0.4 percentage points in the total GDP growth. What was especially positive is that gross investments have a significant share in the contribution to the GDP growth in 2006, whereby, taking into account the high import component of the investments in the Republic of Macedonia as a developing country, the negative contribution of the net import in 2006 grew and was -3.2 percentage points. There are no available data for expenditure components of GDP for the first half of 2007, but leading indicators again point to a high growth of private consumption (nominal net salary growth by 6.1%, strong growth of trade and credit to the private sector by 30%). Gross investments are expected to grow by 15%, in accordance with the growth achieved in the first half of 2007 (12% growth), as well as the ambitious programme of the government for attracting foreign direct investments. Improved foreign trade in the first half of 2007 (higher export growth compared to import growth) points to the fact that there will be a less negative contribution of net export in 2007 compared to 2006.

### Total factor productivity

The analysis of economic growth in a country is of special importance for the creation and implementation of economic policies. According to the theory of economic growth, it depends on three factors:

- **capital growth in the economy** (i.e., the accumulated capital in the economy plus the investments in the current year, reduced by the depreciation according to weighted rate);
- **labour force growth** (number of employed persons in the economy); and

- **growth of the total factor productivity (TFP)**, which is a total level of efficiency by which production factors – capital and labour - are utilised.

To calculate the total factor productivity in Macedonia, we assume that the capital stock depreciated by a weighted depreciation rate of 10%, and we used the LFS data for the number of employed persons. In the calculation, we used the assumption that the portion of the revenues from capital is 0.4, and the remaining is revenues from labour.

Cumulatively, for the period 1997-2006, the share of the production factors and the total factor productivity of growth were as follows:

Table 3: Contribution and share of the production factors and the TFP to growth in Macedonia (1997-2006)

<b>Growth of GDP</b>	Capital	Labour	TFP
<b>2,4%</b>	0,9% (37,7%)	0,4% (17,8%)	1,1% (44,5%)

Source: Ministry of Finance calculations

The table points to the conclusion that in a longer term (10-year average); contribution of total factor productivity to growth is around 45%, which is a significant indicator of the efficiency of using labour and capital. The capital share is also significant, which is comparable to the share of physical capital in the GDP growth in the developed and developing countries. As a comparison, the table below shows the average for three groups of countries:

Table 4: Contribution and share of the factors and the factor productivity to growth in three groups of countries

	<b>Growth of GDP</b>	Capital	Labour	TFP
Developed countries (1960-1990)	<b>3,9%</b>	2,1% (54%)	0,5% (13%)	1,3% (33%)
Latino-American countries (1940-1980)	<b>4,9%</b>	2,4% (48%)	1,3% (28%)	1,2% (24%)
Eastern Asia countries (1966-1990)	<b>8,8%</b>	4,4% (50%)	3,2% (36%)	1,2% (14%)

Source: Barro and Sala-i-Martin, Table 10.8., pp. 380-381

Although in 2006 total factor productivity is negative, this number in the next period is expected to improve and to quickly approximate to the average number. In particular, the growth of the TFP in the previous period can be mainly attributed to the reallocation of resources during the establishment of a market economy, a source which is probably already fully exploited. Hence, in the forthcoming period, TFP increase is assumed to come from the expected higher FDI inflows as they presumably bring into the economy improved corporate governance, standardisation, and more efficient utilisation of labour force.

### Expectation for medium-term macroeconomic trends

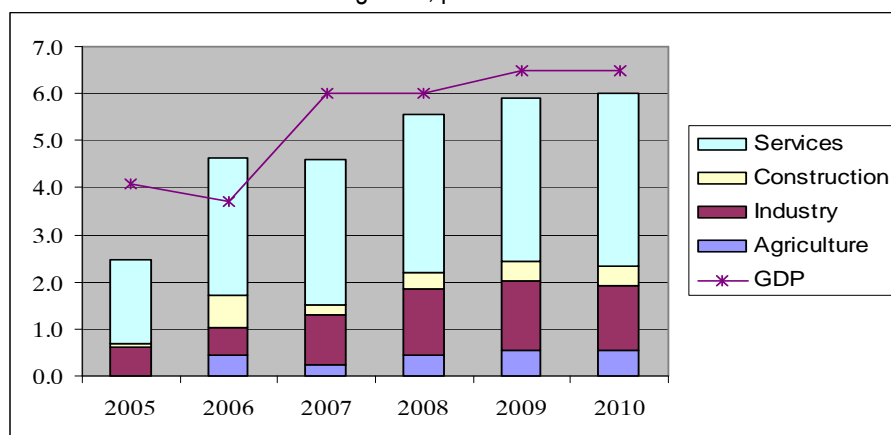
In the period 2008-2010 the average GDP growth rate is expected to be somewhat higher than in 2007, between 6 and 6.5%. Thereby, a driving force in the economic growth from the aspect of the expenditure side of GDP will be personal consumption and investments (especially FDIs). From a production aspect, the main driving force will be the services (see Chart 2) due to their dominant share in GDP, and somewhat lower growth is expected in the industrial production, which would lead to a further shift of the domestic production to services, similar to the situation in the Western developed countries.

The contribution of the personal consumption to GDP is expected to be 3.5 and 4 percentage points in the period 2008-2010 (see Chart 3). Such projection is based on the following:

- projected growth of the net salaries by 7.5% in the coming period, as a result of the growth of salaries in the public sector by 10% and the growth of salaries in the private sector that would follow the productivity growth;
- growth of credit to the citizens by 30% p.a.;
- expected stable level of private transfers.

Personal consumption will also be affected by the introduction of the flat tax, i.e. reduced PIT from 15%, 18% and 24% in 2006 to 12% and 10% in 2008.

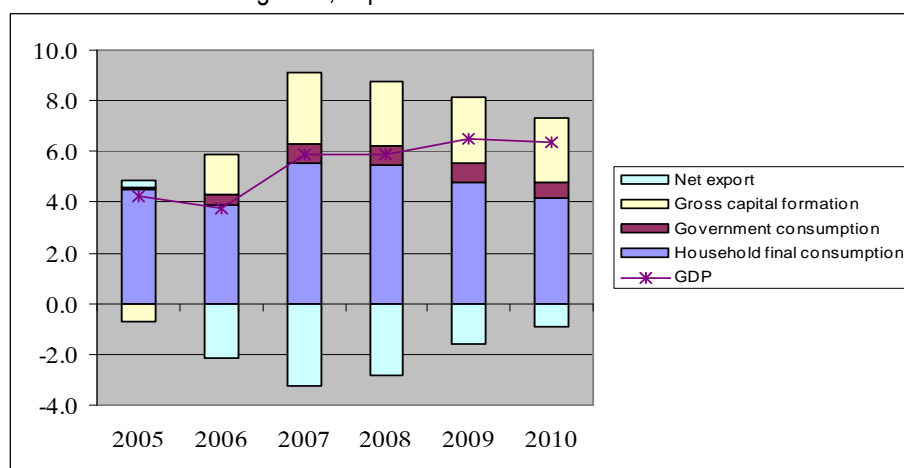
Chart 2: Contribution to the GDP growth, production method



Source: State Statistics Office and the Ministry of Finance

In line with the commitment of the Government of the Republic of Macedonia to disciplined fiscal policy, (general government budget deficit not exceeding 1.5% of GDP), share of public consumption in GDP in the period to come will range between 1.5% and 0.5 percentage points, and in the coming period we expect a greater percentage of utilisation of capital investments that would contribute to more intensive GDP growth. In the coming period, in line with the intensive reform agenda of the Government of the Republic of Macedonia, the improved business climate, the expected membership in NATO and the expected initiation of the negotiations with the EU, investment activity is expected to intensify. The reduction of the profit tax from 15% to 12% in 2007 and to 10% as of 2008 as well as the exemption of reinvested profits from taxation is an additional impetus for greater investment activity, according to the projections, by around 15%. Thus, in the period 2008-2010, gross investments are expected to grow on average between 13% and 16% and to contribute to the growth by around 2 to 2.5 percentage points. (see Chart 3). Taking into account the import dependence of the Macedonian economy, the significantly high inflow of foreign direct investments (Johnson Controls, Johnson Matthey, Agrokor, ERA City etc.) as well as the expected expansion of the personal consumption, contribution of the net export is envisaged to be negative in the coming period, but stabilised to a level of -1.5 to -2.0 percentage points. High import growth is necessary so as to achieve higher economic growth rates, a trend present in all advanced countries in transition.

Chart 3: Contribution to growth, expenditure method



Source: State Statistics Office and the Ministry of Finance

Improvement of the overall economic climate, especially the increased economic activity of small- and medium-size enterprises, i.e. the realisation of more dynamic economic growth rates (6-6.5% on a medium term), will contribute to growth of employment by around 4% at an annual level in the analysed period, with a simultaneous

reduction of the unemployment rate. Also, high economic growth would enable further fiscal and structural reforms so as to improve the business environment, infrastructure and public institution's capacity.

### Potential growth and cyclical position of the Republic of Macedonia

One of the main parameters used in projecting the basic macroeconomic aggregates is the potential growth of GDP in the Republic of Macedonia. This growth is calculated and measured by applying the Hodrick-Prescot trend estimation, where trend value ( $s^*$ ) is estimated by minimizing the real domestic production gap ( $s$ ) and the trend and the variability thereof for the whole sample ( $T$ ):

$$\text{Min} \sum_{t=0}^T (Y_t - Y_t^*)^2 + \alpha \sum_{t=2}^{T-1} ((Y_{t+1}^* - Y_t^*) - (Y_t^* - Y_{t-1}^*))^2,$$

where  $\alpha$  is a parameter for smoothing the time series. According to literature, the assumption is that the value of the parameter is 30. Thereby, we would like to point out that having in mind the many structural disturbances that occurred in the past period, as well as the external shocks which the Republic of Macedonia was exposed to, together with the long period of transition (i.e. significant decline of the economic activity by 1995), there is a great probability that the Hodrick-Prescot method produces biased results in the case of Macedonia.

Table 5: Potential output

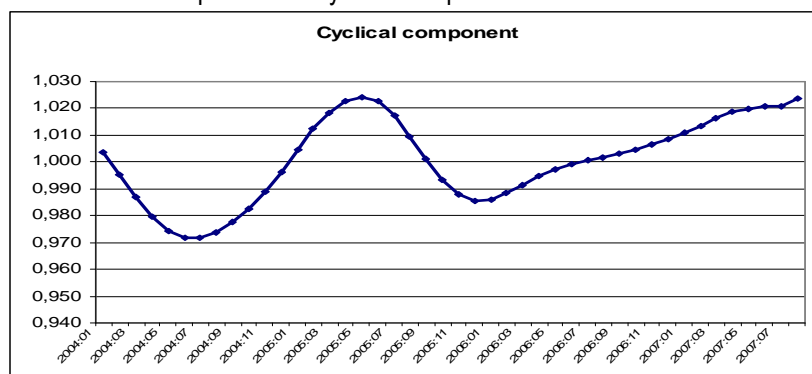
	2006	2007	2008	2009	2010
GDP	3,7	6,0	6,0	6,5	6,5
Potential growth	4,80	5,00	5,20	5,60	5,90
Output gap	-4,80	1,00	0,80	0,90	0,60

Source: Ministry of Finance

The estimate shows that potential GDP growth in the period 1999 - 2010<sup>2</sup> is 3.7%, whereby the GDP gap is negative and is -0.2 percentage points, having in mind the current (and the projected) economic growth in this period is 3.5%. The country's economic growth was below its potential in 2002 (-1.1 percentage point) when the economy was recovering from the 2001 crisis, and in 2006 (-0.6 percentage points), when the growth pace declined to 3.7% after the results achieved in 2004 and 2005 when the growth was 4.1%.

Taking into account the ambitious and expansive economic programme of the Government, according to the projections until 2010, GDP growth is expected to be above the potential. This is due to the reforms that would reduce the labour costs, improve labour education structure, thus increasing the FDIs, increasing employment and the consumption, including public consumption (with an emphasis on capital expenditures). As a verification of these projections is the upward trend of the industrial production cycle in 2007. Such trends in the industry, supported by the positive trends in the service sector, are a verification that the ambitious economic programme of the Government has already started to show specific results.

Chart 4: Industrial production cyclical component

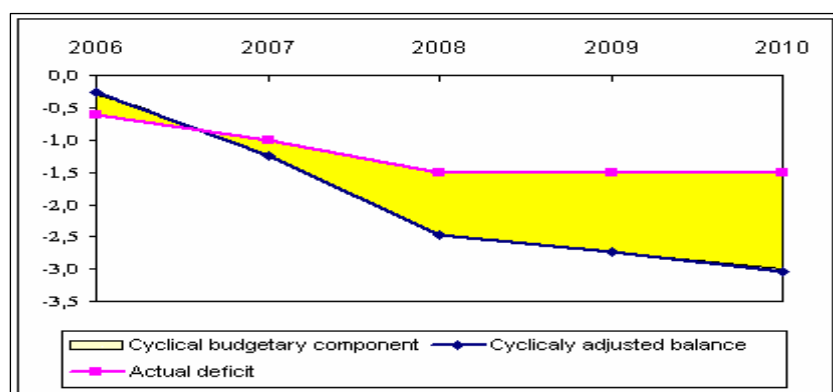


Source: Ministry of Finance

2 2001 is not included, as a result to the non-economic events in the country

In order to discover the effect of the cyclical fluctuations over the budget balance, we will calculate the cyclical component of the budget, i.e. assume what would have happened with the budget balance should the real GDP had been within its growth trend line, i.e. that there is no gap between the realised (projected) and potential output<sup>3</sup>. Thus, if we remove the cyclical component from the current (projected) budget balance, we add the cyclical adjusted budget balance, i.e. the balance that shows more realistically the fiscal policy implemented by the government. Taking this into account, the results point to the following: the cyclical budget component is negative in 2006 since the economic growth was below the potential, whereby the cyclical adjusted deficit is (0.3%) lower than the actual (see Chart 5). In 2007 the cyclical component of the budget is positive (0.2 percentage points), which constantly increases (in 2010 it is 1.5 percentage points), which indicates the conditions in the economy. In this period, the economy is expected to grow by higher rates than the potential economic growth. The expansionary nature of the budget is a support to this. Thus, in the period 2008 - 2010 a fiscal deficit of 1.5% of GDP was projected. Taking into account that the economy enters into expansionary periods, the cyclical adjusted deficit is higher, i.e. it would be between 2.5% in 2008 and 3% in 2010 whereby even in the case the expansion is not realised, the budget deficit would not exceed the Maastricht criterion (-3% of GDP).

Chart 5: Cyclicaly adjusted balance



Source: Ministry of Finance

## 1.2 Inflation

Inflation, measured through the costs of living in 2006 was 3.2% at an annual level, which shows certain dynamics of the economic activity (in 2005 the inflation rate was 0.5%). In the first half of 2007, the inflation rate was measured via the cost of living was 0.9% and is relatively lower than the projected. Such deviation is a result of the non-increase of the electricity price, reduction of the oil price in early 2007 as well as the reduction of the customs tariffs in accordance with the membership of the Republic of Macedonia to the WTO and the SAA.

CPI trends in 2006 were different by consumption groups. Growth was noted in the following groups: tobacco and beverages (17.8%), culture and leisure (6.4%), food (2.2%), housing, hygiene and health (2.0%), transport vehicles and services (1.8%) and clothes and footwear (0.2%). In the first half of 2007, the highest share in the inflation rate was in food and housing, while the only sector registering downward trends was the transport communication sector, in accordance with the reduced prices of mobile telephony.

The inflation rate, according to the projections, on the medium term, will be a low, single-digit and in accordance with the expected employment growth, salary growth and personal consumption, as well as with the projections on the trends in the prices of energy sources on the global markets. The inflation rate in the analysed period is expected to be between 2.5 and 3.5%, at a planned annual employment growth by 4% and productivity growth by 4-5%. Monetary policy will be aimed at further maintenance of price stability in the economy, as a main monetary goal. At the same time, strategy of targeting nominal Denar exchange rate to the Euro will continue to be applied, thus the maintenance of the Denar exchange rate stability will be an indirect monetary goal. Money

<sup>3</sup> Macroeconomy- Michael Burda, Charles Wyplosz

demand will increase in line with the inflation and GDP growth, and more intensive crediting to the private sector is expected, in accordance with the greater competition in the banking sector, as well as the growth of the average salary in the Republic of Macedonia.

### **1.3 Monetary and exchange rate policy**

The contribution of the monetary policy to fundamental macroeconomic goals is recognized as delivery and maintenance of the price stability, the latter being a primary condition for sustainable economic growth. As the monetary strategy is concerned, the National Bank of the Republic of Macedonia (NBRM) continues with implementing the strategy of targeting the nominal Denar exchange rate against the Euro, which has proved as nominal anchor for formation of the inflation expectations of the economic agents in the last decade. From operational point of view, in 2006 and 2007 the monetary policy was mainly facing a challenge for sterilization of the effects of foreign exchange transactions on the one hand, and on the other for further deepening of the short-term securities market in order to improve the monetary transmission. The reserve money growth, together with increased foreign exchange inflows, intensified economic activity and the permanent propensity to save, contributed to further growth of the banks' deposit base. The increased deposit potential of the banking sector, together with the financing from foreign sources, resulted in further intensification of the banks' credit activity under declining trend of the interest rates.

In the first nine months of 2007, the average rate of inflation was 1.4%, which in comparison with the 3.2% inflation rate in 2006 determined by non-monetary factors, implies stabilization of the prices in the economy. Additionally, in this two year period the core inflation is relatively low, implying stable long-term inflation component. Food prices, which are dominant inflation component, are expected to be main determinant of inflation dynamics till the end of 2007 and also in 2008, mainly due to the reduced domestic supply because of the drought period and world market movements. On average, an inflation rate of around 2% is expected for 2007 and for the forthcoming year inflation rate of around 3% is expected.

Foreign exchange market in the last few years is characterized by increased foreign exchange inflows, mainly as private transfers, foreign direct investments and portfolio investments. The positive perceptions of the foreign investors regarding the economy, favorable developments in the foreign trade, as well as positive expectations of the banking sector for the macroeconomic policy orientation, resulted with an increase of the supply on the foreign exchange market. The pressures for appreciation of the domestic currency were neutralized by net-purchase of foreign exchange by the NBRM on the foreign exchange market, which enabled the maintenance of the exchange rate stability. The Exchange Market Pressure Index (EMPI) indicates an extremely low percentage of pressures on the foreign exchange market during 2006 (only 4.8% from the whole sample of daily observations), which means that during the entire year in general there were no extreme and long-lasting changes in the monetary policy set up, the NBRM intervention policy or in the nominal exchange rate.

The net-purchase of foreign exchange by the NBRM, given the excess of foreign exchange on the foreign exchange market, led to a sustained increase in the gross foreign reserves and sufficient, average, monthly coverage of the imports of goods and services. Hence, gross foreign reserves at the end of 2006 reached EUR 1,417 millions, which is an increase of EUR 294 millions. The same trend continued in 2007, when the gross foreign reserves at the end-September have increased by EUR 105 millions in comparison with the end of 2006, despite the significant outflow of foreign assets due to the early repayment of the public debt.

The main monetary policy instrument for liquidity management, given the structural liquidity surplus, is the 28-days Central Bank Bills (CB bills). CB bills auctions in 2006 and 2007 are conducted as "interest rate tender" which assures that the interest rate is determined freely, on the market. Starting from March 2006, NBRM in cooperation with the Ministry of Finance started issuing 3-months treasury bills for monetary purposes aimed to sterilize the structural liquidity surplus on a longer term. The total amount of sterilized liquidity through the main monetary instruments in 2006 (CB bills and treasury bills for monetary purposes) accounted for 1.7% of GDP. Given that the excess of liquidity is characteristic for the 2007 as well, the sterilization of liquidity remains a necessity. Importantly, the liquidity sterilization was accompanied with an ongoing decrease in the interest rate of the main monetary policy instrument (which reflects the high liquidity position of the banking sector, as well as the attractiveness of the interest rates). Also, the prudent fiscal policy contributed to the sterilization of the

liquidity, as well. The average CB-bills interest rate in December 2006 was 5.74% and it declined by 2.8 percentage points. A decreasing trend is present in 2007 as well, therefore in September 2007 this interest rate went down to 4.83%.

The fall in the CB-bills interest rate was followed by a decrease in the banking sector interest rates, but with a lower intensity. Hence, in 2006 the average interest rate of the Denar credits has fallen by 1.4 percentage points and at the end of the year it was 10.7%, whereas the average interest rate of the Denar deposits has declined by 1.2 percentage points and at the end of the 2006 it was 4.4%. Additionally, in 2006 the real interest rates were on the historically lowest level. In August 2007, the average weighted lending and deposit interest rate were 10.1% and 5%, respectively, which led to a reduced interest rate spread of 5.1 percentage points. Under situation of liquidity surplus in the banking sector, the interest rate of the Central Bank acts more like an opportunity cost rather than a financing cost for the banks, which further, adversely affects the monetary transmission. Therefore, NBRM makes efforts for further development of the short-term securities market, which is expected to enhance the interest rates transmission channel. On the other hand, the increased competition in the banking sector is becoming an important determinant of the interest rates developments, mainly in favor of further reduction of the interest rates, considering the intentions of the banks to keep and enlarge their market segments.

The enhanced confidence of the economic agents and the greater propensity to save in the banking sector, as well as the increased economy's potential for additional creation of disposable income led to an continuous growth of the banks deposit base, the latter being main generator of the credit activity. Thus, in 2006 the total deposits, expressed as a percent of GDP, were 33.1%, which, in comparison with the end of 2005, is a 5.7 percentage points growth. This positive trend of the deposit base continued in the first seven months of the 2007 determining an annual growth rate of the private sector's total deposits in August 2007 of 33.3%. According to the analysis of the maturity structure short-term deposits have dominant share in the total deposits (around 94%), which indicates that economic agents still prefer short-term saving. The analysis of the currency structure has shown a reduced share of the foreign currency deposits in the total deposits, from 61% at the end of 2006 to 56.2% at the end of August 2007, which is an essential positive structural change. As the change is primarily caused by the reduced households' propensity to save in foreign currency, it indicates a greater confidence in the domestic currency and in the monetary authorities (the share of the households' foreign currency deposits in the total deposits of this sector is 60.1% in August 2007, whereas it was 66.7% at the end of 2006).

Banks' credit activity in the last four years has proved as a significant source of additional financial assets for the private sector. Hence, credits to private sector have accounted for 29.6% of GDP in 2006 which in comparison with the previous year is higher by 5.4 percentage points. This indicates a permanent deepening of the financial intermediation, even though it is relatively low if compared to credit growth in more advanced economies due to the initially low level of financial intermediation in the period from the monetary independence of the Republic of Macedonia until 2003. In August 2007, total credits to the private sector increased by 36.2%, on annual basis. Worth noting is the qualitative improvement of the credit growth as suggested by the decreased share of non-performing credits in the total placements. As for the sources of financing of the credit activity, the increased deposit potential remains as a main source of banks' financing, having in mind the gradual and moderate increase of the foreign credit lines withdrawal, which results with injection of the adequate amount of liquidity in the economy. The credit growth is providing a significant support of the domestic personal and investment consumption, so far without significant impact over imports (considering current developments in the trade balance), while the price stability has been sustained.

The analysis of the maturity and currency structure of the credits shows that domestic currency and long-term credits has a major contribution in banks' total placements (79.3% and 67.2%, respectively, at the end of August 2007). Furthermore, the more intense growth of the long-term credits as compared to the short-term ones (27.4% as compared to 19.6% in August 2007) is crucial for the maintenance and further intensification of the ongoing investment activity in the economy. The analysis of the structure by sectors showed an increase of the credits to households, especially consumer and housing credits. Namely, in the last several years there is an ongoing increasing trend of the credits to households due to the improved standard of living which led to a greater households' ability to raise debt, but also triggered by enhanced banks' capacity for credit allowance and the need for a more diversified banks' credit portfolio. Thus, the credits to households in August 2007 accounted for 37.5% from the total credits (in comparison with 34.4% at the end of 2006). Additionally, their growth contributes

with 50.2% in the total cumulative growth for the January - August 2007 period. Such a trend is expected to continue in the forthcoming period in accordance with the banks' expectations for an increase in the demand for credits by households and corporate sector, as well as with gradual relaxation of the credit requirements. Consequently, regular monitoring of the impacts of the credit growth is of great importance in order to maintain the financial stability.

Given the positive perceptions regarding the potential growth prospects of the domestic economy, as well as the gradual process of capital account liberalization, the monetary policy in the forthcoming years will focus on activities aimed towards successful operational implementation of the exchange rate targeting strategy, which additionally requires further active monetary-fiscal policy coordination. The analyses of the current monetary policy strategy by many different criteria continue to justify its further implementation. However, dynamic changes in the financial system imply a need of continuous monitoring of the effectiveness and eventual changes in the monetary policy transmission channels, as well as efforts for building institutional capacities for macroeconomic forecasting, in order to be able to face the possible challenges arising from the dynamic environment in the future.

#### **1.4 External Sector**

In 2006, favorable developments have been registered in the external sector, reflected notably in the relatively low current account deficit of 0.4% of GDP. The narrowing of the current account deficit mainly resulted from the high inflows of private transfers (reaching 18.7% of GDP) which have remained being a stable source of trade deficit financing with 90.6% coverage of the trade deficit. Moreover, the surplus in the services and the small deficit in the income (having in mind the delayed payment of dividend of one bigger domestic company to its foreign investor) positively contributed to the narrowing of the current account deficit. The only component with negative contribution to the current account balance was the trade balance, which due to the higher increase of the imports of goods relative to the one of the exports registered larger deficit (the deficit grew by 2.3 percentage points of GDP). Regarding foreign trade, it is important to point out favorable developments reflected by improved diversification of exports of goods, and at the same time higher concentration of imports of goods (according to the Herfindahl-Hirschman index). The increasing trend in productivity of the tradable goods sector is as well an indicator of the gradual improvement of the competitiveness and performances of the export-oriented sector. The developments of the real effective exchange rate of the Denar, which is continuously depreciating mainly due to the lower domestic prices relative to the foreign prices, are to be considered as additional evidence in favor of the competitiveness of the domestic producers on the foreign markets. Still, high import-dependency, in particular on energy products, remains as a key point that implies a necessity of measures and activities aiming at improvement of the trade balance.

The main sources of net inflows in the capital and financial account in 2006 were the foreign direct and portfolio investments. FDIs amounted 5.8% of GDP (annual growth of 4.1 percentage point), mostly due to the inflow based on privatization of the electric power company "ESM-Distribution" in March 2006. Regarding the debt developments, the net outflows registered an increase, mainly due to the prepayment of the debt to the London club of creditors in January 2006 (using the inflows based on Eurobonds issuance). The favorable developments in some of the mentioned categories from the current account, as well as in the capital and financial account in 2006, contributed for increase of the gross foreign reserves, which as of 31.12.2006 equaled EUR 1,416.7 millions, enabling 4.1 months coverage of the expected imports of goods and services for 2007 (based on estimates from November 2007).

In the first half of 2007, the favorable developments in the external sector sustained, with current account of the balance of payments registering a surplus of EUR 102.2 millions, mainly determined by the high private transfers inflows, shrinking of the trade deficit, as well as by the reduction of the net-outflows in the balance of services. In the first half of 2007, the upward trend of the private transfers continued, thus registering an increase of 15.3% in comparison with the same period of the last year. Considering that the cash exchange inflows are their main component, NBRM makes efforts for better understanding, recording and improving of the statistical measurement of this particular item.



In line with the intensified economic activity, in 2007 in the external trade positive trends are registered. Therefore, in the first eight months of 2007 the value of exports of goods registered an annual increase of 31.7%, primarily determined by the higher exports of iron and steel and their products (combined effect of both, the higher export volume and favorable developments of nickel prices on the world market). At the same time, the total imports of goods registered a lower annual rate of 18.4%, contributing towards reduction of the negative external trade balance by 3.8% compared with the same period of the previous year, while export / import coverage ratio equaled 69.5% and it was higher by 7 percentage points.

The integration of the Republic of Macedonia into the original CEFTA (Macedonia, Croatia, Bulgaria and Romania) is considered to be one of the most important issues occurred in 2006, in the domain of the external trade. The integration is aiming at strengthening of the regional economic cooperation, further liberalization of the external trade and compliance of the trade rules with the EU standards. CEFTA membership is seen as very important step ahead in the process of European integration, i.e. a kind of a test for the fulfillment of political, economic, security and judicial criteria within the integrative processes with the European Union. Considering the importance of the CEFTA, the international community initiated contracting of a new single free trade agreement (CEFTA 2006), which is about to play the same role (as the original CEFTA did) for the South Eastern European countries. The implementation of this agreement started on July 26, 2007, and its major benefits are considered to be: liberalization of the custom duties; imposing discipline on non-custom barriers in the bilateral trade; abolishment of export subsidies (this particular obligation will have a positive impact on the bilateral trade between the member countries in general, but still most pronounced effect would be seen upon the trade of agricultural and food products for which the protectionism in terms of export subsidies is most largely extended); compulsory implementation of the WTO rules; introduction of additional stipulations regarding several new areas in the trade (services, public procurements, investments and intellectual property rights protection); and apart from that, as notably important are perceived to be the possibilities for ascertaining clear rules of origin.

The entrance of Bulgaria and Romania into the EU at the beginning of 2007 implied changes in their bilateral trade regime with the Republic of Macedonia. These changes should have positive impacts on Macedonian economy, arising from the asymmetric treatment of the exports and imports of goods originating from the EU. These changes already gave results with respect to the bilateral trade balance between the Republic of Macedonia and Bulgaria towards shrinking of the Macedonian trade deficit with this country. Namely, already in the first eight months of 2007 the bilateral trade deficit, on annual basis, has been reduced by 96.8%, as a result of simultaneous increase of the exports of goods and decrease of imported goods from this country.

In the first half of 2007, the capital account registered net-inflows of EUR 10.2 million, which is almost entirely attributed to the concession payments from the third mobile operator. In the same period, the financial account registered net-outflows in amount of EUR 106.4 million, which is mainly due to the prepayment of the external public debt, as well as to the net-outflows related to the trade credits. The relationships with the foreign creditors are in accordance with the public debt strategy, which apart from the public debt reduction, aims as well at improvement of its currency, maturity and interest rates structure. Therefore, the reduction of the external public debt during 2007 has initially started with prepayment of the debt towards Paris club of creditors, which was done within couple of months, through gradual repayments of the debt towards individual countries within the Paris club. In May and June 2007, prepayments of the debt obligations to the IMF and to the IBRD were realized, respectively. Thus, the external sector public debt as of August 31, 2007 equaled EUR 1,013.1 million (18.7% of GDP) and it was decreased by 17% (or by 5.9 percentage points of GDP) compared to December 31, 2006. Consequently, the share of the public sector external debt in the total external debt was 56.3% at end of August, which is a reduction of 10.3 percentage points compared to end-December 2006. On the other hand, private sector external debt has an upward trend and at the end of August compared to end-December 2006 it was higher by 28.8%. These particular debt developments were expected, considering the gradual liberalization of the capital flows, the country's favorable credit rating and consequentially improved access to the international capital markets, and as well considering the entrance of foreign investors which usually accelerates the integration into the international financial flows. As of August 31, 2007 country's total external debt equaled EUR 1,798.9 million, which is lower by 1.7% relative to end-December 2006.

In the first half of 2007, the registered foreign direct investments were higher relative to the same period of the last year by 96% (excluding the privatization inflow for the electric power company "ESM-Distribution" in the last

year), which is to a large extent a reflection of the efforts made for the improvement of the business environment. The breakdown of FDIs by sectors shows that they are primarily concentrated in the financial sector (entrance of the prominent French bank), transport and communications sector, and in manufacturing industry. In the same period, portfolio investments registered an annual growth of 80.5%, indicating continuous foreign investors' interest and also existing potential of the Macedonian stock exchange. The foreign investors are mainly oriented towards investing in shares issued by the domestic companies, which is in line with the investors' positive perception regarding the growth perspectives of the companies. The purchased foreign exchange by the NBRM based on foreign portfolio investments is by 3.3 times higher than the sold amount of foreign exchange related to withdrawal of invested funds by non-residents, which indicates continuous net inflows of foreign exchange upon foreign portfolio investments.

In accordance with the external sector developments, the NBRM registered a large net purchase of foreign exchange on the foreign exchange market, thus completely off-setting the outflows based on public sector debt repayments, and consequently contributing for the further increase of the gross foreign reserves. As of September 30, 2007, the gross foreign reserves reached EUR 1,522 million, which is an increase of EUR 105 millions relative to the end of 2006.

## **2 PUBLIC FINANCE**

### **2.1 Fiscal movements in 2006**

#### **General Government Budget revenues**

In 2006, actual General Budget revenues amounted to Denar 105.782 million, financed by the revenues realised in the amount of Denar 104.078 million.

In 2006, total revenues of the General Budget of the Republic of Macedonia, compared to last year, were higher by 3,2%. Tax revenues reached the level of Denar 59.575 million, participating with 57,2% in the total budget revenues in 2006.

The share of the value added tax (VAT) in the structure of total tax revenues was 45.7%, the share of excises was 20.4%, personal income tax participated with 14.1%, customs duties and other import duties with 11.8% and profit tax with 7.9%.

In 2006, revenues on the basis of personal income tax amounted to Denar 8,414 million, which is by 3.8% higher compared to last year. Regarding the structure of these revenues, as usual most of them were realised on the basis of the payroll tax – 75.3%, as well as on the basis of tax on income received from contractual agreements (9.5%), while the share of revenues on other basis was relatively low.

Collected revenues on the basis of profit tax in 2006 amounted to Denar 4,708 million, which is by 66% higher compared with the profit tax revenues in 2005. High growth of revenues in 2006 was due to the better performance in the economy, as well as due to the reduction of the profit tax exemptions from 50% to 30% in 2006.

Domestic taxes on goods and services (VAT and excises) as usual had the highest share in the structure of total revenues by 61.6%.

VAT revenues in 2006 equalled Denar 27,239 million which is slightly higher compared to last year (0.6%), though they under-performed projected revenues in the Supplementary Budget by 4.5%. This can be explained by the new Customs Law, regulating the deferred payment of the customs debt and the reduction of VAT tax rate from 18% to 5% for agricultural products, in force since 1<sup>st</sup> October 2006. Collected VAT on imported goods in the country amounted to Denar 26,385 million, and compared to last year, increased by 12.0%.

Excise revenues grew by 3.9% in 2006 compared to 2005, while they exceeded the projected level in the supplementary budget plan by 4.6%. This increase of excise revenues was mainly due to increased revenues on the basis of excise on tobacco processing - by Denar 306 million, the sale of passenger vehicles - by Denar 109 million and revenues on the basis of excise on oil derivatives - by Denar 52 million.

Other tax revenues in the amount of Denar 1,620 million grew by almost 2.5 times on annual level. This increase was due to the inclusion of the fees, introduced in 2006 pursuant to the Law on Environment Protection, Law on Tobacco and the Law on Health Care.

Non-tax revenues dropped by almost 2 times in 2006 compared to 2005, mainly due to the unpaid dividend by AD Macedonian Telecommunications.

Capital revenues amounted to Denar 948 million in 2006, being an increase by 1.6% compared to 2005. Capital revenues were mainly received by the sale of construction land.

Revenues on the basis of donations amounted to Denar 550 million in 2006, and the main donor was the EU with Denar 120 million, intended to finance development projects, and the Kingdom of the Netherlands with Denar 430 million as support to the implementation of PDPL 2 Arrangement.

### **General Budget expenditures**

In 2006, total general budget expenditures amounted to Denar 105.782 million, an increase of 5.6% compared to the last year which was achieved by the increase of almost all expenditure items.

The cost of wages and salaries and allowances amounted to Denar 23.421 million in 2006, an increase of 2.6% compared to 2005. The increase was mainly due to the application of the collective agreements regarding the salary-related expenditures, because of the salary decompression, as well as the continuity of the principle of adequate and equitable representation in public administration of representatives from ethnic communities. Still, costs related to salaries, wages and allowances as percent of the total expenditures were lower by 0.6 percentage points compared to 2005.

Regarding goods and services, Denar 12.903 million was spent in 2006, i.e. 0.6% more compared to last year. Funds for transfers, which include subsidies, current transfers and social benefits, were realised in the amount of Denar 56.675 million in 2006, which is an increase of 9.8% compared to 2006. This increase in 2006 was mainly due to the higher benefit payments to the Pension and Disability Insurance Fund (by 13.7% compared to the last year) to cover the transitional deficit of the Fund regarding the introduction of the second pillar.

In 2006, Denar 2,862 million were spent for social , which, compared to 2005, was a drop by 5.0%. Transfers for child allowance remained almost the same (an increase by only 0.9%).

Regarding the reforms in the Ministry of Defence, Denar 211 million was spent, which is by 55.2% more than in 2005.

Within the public administration reforms, Denar 501 million was spent in 2006, or 3.3% more compared to 2005. Regarding interest payments, there was an increase of 20.1% in 2006 compared to 2005. The increase was mainly a result of the increased payments on the basis of interest on external debt by Denar 518 million or by 33.7% compared to last year. Interest payments on the basis of domestic debt remained almost stable.

Capital costs reached the amount of Denar 9.260 million or 8.8% of the total budget expenditures in 2006. This was by 1.4 percentage points lower compared to the performance in 2005. A major part of the capital expenditures (96.3%) was related to costs for purchasing capital funds and for capital transfers.

### **General Budget deficit**

In 2006, the General Budget deficit amounted to Denar 1.704 million or 0.6% of GDP.

The realised budget deficit in 2006 was lower than the envisaged one in the Supplementary Budget by Denar 734 million.

Budget deficit financing in 2006 and regular servicing of liabilities on the basis of the both domestic and foreign debt were fully provided from domestic sources, mainly from the privatisation proceeds and the issuance of government securities. In fact, inflows from the sale of the majority capital of ESM contributed to around 75% to the total privatisation revenues. In addition, there were inflows from the sale of the state capital in AD Macedonian Telecommunications, banks and other institutions.

## **2.2 Fiscal trends in first half of 2007**

In the first half of 2007, total revenues of the general government budget amounted to Denar 54.279 million, an increase by 10% compared to the same period last year.

Tax revenues in this period accounted for Denar 32.269 million, an increase by 16.3% in relation to the same period last year, and 10% more than the planned.

The share of VAT in the total tax revenues in the first half of 2007 amounted to 47.3%, excises accounted for 18.6%, and whereby revenues realised on the basis of these two taxes amounted to Denar 21.270 million. Observations in certain categories were as follows: VAT revenues increased by 21.4%, excises by 11.8%, profit tax surged by 24.0%, while revenues on the basis of customs duties increased by 15.9%, and PIT revenues

dropped by 4.5% compared to the same period last year.

During the first six months in 2007, total expenditures of the general government budget amounted to Denar 50.112 million, an increase by 0.6% in relation to the same period in 2006.

The highest expenditure item was the transfers (Denar 27.950 million), salaries and allowances (Denar 12,137 million). Expenditures related to salaries and allowances participated with 24.2% in total expenditures of the general government budget during this period, and they increased by 4.4% in relation to the same period last year.

Expenditures related to goods and services amounted to Denar 5.813 million, i.e. there was higher realisation by 5.0% compared to 2006.

Regarding transfers, 2.2% more funds were spent in this period compared to 2006. Transfers to the Pension and Disability Insurance Fund were made in the amount of Denar 13.848 million or by Denar 811 million more (6.2% increase). Interest was observed in the amount of Denar 1.434 million, a drop of 6.0%.

During the analysed period, funds related to capital expenditures accounted for Denar 2.778 million, a decline of 13.4% compared to the same period in 2006.

Increased collection of public revenues, in conditions of lower spending of budget funds contributed to the creation of surplus of the general government budget in the amount of Denar 4.167 million in the period January-June 2007, whereby the central budget surplus accounted for Denar 3,322 million.

## **2.3 Medium-term Fiscal Framework**

Medium-term planning of public finance actually provides fiscal framework for the total public revenues and expenditures of central and local governments and is a basic control mechanism for further implementation of disciplined budget policy. Fiscal framework is defined on the basis of clearly set guidelines for the Government activities and it creates a real basis for designing the economic policies in the next medium-term period, having in mind the pending challenges posed by integration process. In addition, foreseeable and credible medium-term fiscal policy is important from the point of view of the expectations of the economic entities that, undoubtedly, influence the final economic outcome.

The 2008-2010 fiscal policy is designed so as to accomplish the following strategic objectives:

- acceleration of economic growth and creation of assumptions for sustainable economic development and employment;
- maintenance of macroeconomic stability by supporting the monetary policy in fulfilling the ultimate goal – low inflation;
- support to the policies aimed at poverty and unemployment reduction;
- continuation of the existing and commencement of new medium- and long-term structural reforms, whereby the role of the fiscal policy will be emphasized especially in the support to the reforms in primary health care and financing of mandatory secondary education, as two inputs for achieving accelerated economic growth and development on both medium and long term;
- Support in achieving the strategic government priorities and accelerate the integration process to the EU and NATO.
- Thereby, implementation of the planned medium-term fiscal policy is directly conditioned by the realisation of the planned economic policies and the projected macroeconomic indicators, including the achievement of the following challenges and assumptions:
- Achieving accelerated and long-term sustainable economic growth and development in the Republic of Macedonia, mainly through increasing labour productivity. Building institutions that underpin market environment, promoting the transfer of ideas and technologies, as well as increasing investments, will provide for a more efficient utilisation of the available labour force and capital, having its effect over the economic development.
- Successful completion of the initiated process of deep structural reforms, aimed at improving the business

environment, being necessary for the achievement of the two most important objectives – increase of the growth of the Macedonian economy and sustainable growth 5-6.5% in the long run, as well as mitigation of the unemployment problem;

- Successful implementation of reforms in the tax area that would ensure regular and full collection of revenues, reduce costs of the companies, provide for reduction of a grey economy and an increase of budget revenues in the medium run. This is especially important in conditions of trade liberalisation and reduction of revenues on the basis of import taxes, as well as reduction of revenues on the basis of social contributions as a result of the pension reform;
- Adhering to the principle of budget discipline and rational and efficient utilisation of public revenues, which ensure sustainability of low level of deficit. Improvement of the budget structure so as to reduce non-discretionary costs and ensuring greater space for development investments and co-financing projects financed from the European funds, as well as reorganisation of government functions so as to create new institutions that would respond to the priorities for EU membership;
- Efficient utilisation of credit funds earmarked for the cadastre reforms, reforms in the judiciary, social protection, health and education, municipal development, irrigation rehabilitation and improvement of business environment, as well as the available resources from EU pre-accession funds.

Projected fiscal policy in conditions of meeting the indicated assumptions will ensure further strengthening of fiscal consolidation, expressed through reduction of the level of public consumption and tax burden, which will provide for fiscal sustainability on the medium run and support to the development of both the economy and the private sector.

Table 6: Consolidated general government budget

<b>CONSOLIDATED GENERAL GOVERNMENT BUDGET</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
(Denar million)				
<b>Consolidated general government budget – Revenues</b>	<b>125,515</b>	<b>136,484</b>	<b>145,985</b>	<b>154,860</b>
% of GDP	37.6	37.4	36.7	35.7
<b>Consolidated general government budget – expenditures</b>	<b>129,011</b>	<b>142,025</b>	<b>151,849</b>	<b>161,368</b>
% of GDP	38.6	39.0	38.2	37.2
<b>Consolidated general government budget – deficit</b>	<b>-3,496</b>	<b>-5,541</b>	<b>-5,864</b>	<b>-6,508</b>
% of GDP	-1.0	-1.5	-1.5	-1.5
<b>Central Budget – revenues</b>	<b>77,507</b>	<b>83,454</b>	<b>84,700</b>	<b>88,870</b>
% of GDP	23.2	22.9	21.3	20.5
<b>Central Budget – expenditures</b>	<b>79,999</b>	<b>87,651</b>	<b>90,424</b>	<b>94,878</b>
% of GDP	24.0	24.0	22.7	21.8
<b>Central Budget – deficit</b>	<b>-2,492</b>	<b>-4,197</b>	<b>-5,724</b>	<b>-6,008</b>
% of GDP	-0.7	-1.2	-1.4	-1.4
<b>Extra budgetary funds – revenues</b>	<b>33,804</b>	<b>35,854</b>	<b>38,965</b>	<b>42,366</b>
% of GDP	10.1	9.8	9.8	9.8
<b>Extra budgetary funds - expenditures</b>	<b>34,808</b>	<b>37,198</b>	<b>39,105</b>	<b>42,866</b>
% of GDP	10.4	10.2	9.8	9.9
<b>Extra budgetary funds - deficit</b>	<b>-1,004</b>	<b>-1,344</b>	<b>-140</b>	<b>-500</b>
% of GDP	-0.3	-0.4	0.0	-0.1
<b>Local government budget - revenues</b>	<b>14,204</b>	<b>17,176</b>	<b>22,320</b>	<b>23,624</b>
% of GDP	4.3	4.7	5.6	5.4
<b>Local government budget - expenditures</b>	<b>14,204</b>	<b>17,176</b>	<b>22,320</b>	<b>23,624</b>
% of GDP	4.3	4.7	5.6	5.4
<b>Local government budget - deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
% of GDP	0.0	0.0	0.0	0.0
<b>Gross Domestic Product</b>	<b>333,845</b>	<b>364,492</b>	<b>397,888</b>	<b>434,345</b>

Source: Ministry of Finance

Revenues of the **consolidated government budget** in the next three-year period decline relatively, as a share of the GDP, from 37.6% of GDP in 2007 to 35.7% in 2010. The projected decrease is mainly a result of the reduction of the tax burden, which will provide space for freeing available resources in the private sector and their focusing on a higher level of investments and new jobs that would directly accelerate development of the domestic economy.

Total expenditures in the period 2008-2010, in conditions of rational management with public finances at all government levels, according to the planned policies and low level of budget deficit, are declining as a share of the GDP from 38.6% in 2007 to 37.2% in 2010.

Such determined basic postulates of the fiscal policy actually mean further maintenance of the low level of **deficit** at around **1.5%** of the projected GDP, which is mainly financed from domestic sources.

### **Medium-term projections of the Budget of the Republic of Macedonia**

Regarding the coming medium term, projected revenues and expenditures maintain the low level of budget deficit of around 1.5% of the projected GDP. Maintaining this level of deficit, as clearly defined fiscal anchor, will provide greater credibility for the country, benefiting from the sound economic expectations and significant support to the fixed exchange rate regime.

### **Projected revenues in the Budget of the Republic of Macedonia**

Intensifying the economic activity, together with increased investment activity, which leads to the improvement of economic performance, and the imposed need to re-assess the expected revenue projections on medium term, whereby the current 2007 is taken as a base.

Within the total budget revenues, tax revenues have the largest share, which account for around 57% in the coming medium-term period.

Estimates regarding the **tax revenues** are based on the projected revenues in certain years when macroeconomic parameters were applied, having a different influence on the amount of tax revenues.

As part of the tax reforms, starting in 2007, and flat tax was applied, i.e. an equal tax rate of 12% at profit tax and personal income tax, which will be further reduced to 10% in 2008, as well as zero rates on re-invested profit, thus the Republic of Macedonia will become one of the countries with lowest taxes.

What is important to be pointed out regarding the introduction of the flat tax in 2007 is that it supports private sector development, providing for reduction of the tax burden, simplification of tax procedures, job encouragement, and in particular attracting foreign direct investments.

Such reform activities in tax policy are only one of the commitments of the Government to directly expedite economic growth, which in the next period are expected to ensure growth of gross domestic product up to 6.5% and 4% employment growth.

Tax policy in the next medium-term period envisages continuation of the process of harmonisation of legislation with the modern tax systems of the developed market economies and thus the tax reforms in the overall tax area will continue. In parallel with this process, all measures and activities will continue in ensuring efficiency in calculating and collecting taxes and stronger fight against tax frauds. Cooperation among the Public Revenue Office, Financial Police and Customs Administration will be intensified in terms of detecting tax evasion and illegal import and their eradication, as well as enforcement of sanctions for the perpetrators will provide for increase in the revenues on the basis of taxes and customs.

Regarding the tax revenue structure, the highest share is the one of the indirect taxes, of which the share of VAT is around 50%, i.e. around 10% of GDP, while the share of direct taxes is around 28%, i.e. around 5% of GDP.

**The projections of social contributions**, which are genuine revenues of the Pension and Disability Insurance Fund, Health Fund and the Employment Agency, in the next medium-term period, are based on the following:

- realised trends in revenues;
- projected macroeconomic indicators for the next medium-term period;
- base harmonisation regarding the payment of social contributions;
- more efficient collection of contributions on the medium term, by integrating the collection of personal income tax and social contributions in one institution;
- effects from the realisation of agreements for deferred payment of social contribution arrears;
- Successful implementation of reforms in the health sector.

Social contributions within the total revenues in the Budget of the Republic of Macedonia will account for around 27% in the coming mid-term period. Regarding revenues on the basis of social contributions, the highest share is the one of the pension insurance contributions, being at the level of 68% and health insurance contributions, being at the level of around 28%, while the employment contribution is at lower level. Such structure of social contributions is in accordance with the legally set rates of contributions on salaries of employees.

**Non-tax revenues** in the next medium-term period account for around 10% in overall revenues, and the most significant is the share of revenues on the basis of administrative fees and fines and revenues from road tolls and registration of vehicles generated by the Road Fund. As a result of the measures undertaken for more efficient collection of road tolls, the share of the revenues of the Road Fund is expected to grow in the next period.

Projection of the revenues of the Budget of the Republic of Macedonia, with regard to **foreign donations**, in addition to the Dutch donation for balance-of-payment support in 2007, include the donations that the budget users would realise for specific projects, as well as disbursements from the EU pre-accession funds.

### **Projected expenditures in the Budget of the Republic of Macedonia**

The expenditure side of the Budget of the Republic of Macedonia in the next period is fully created in terms of achieving the strategic priorities of the Macedonian Government, i.e. expediting the economic growth and integration process for EU and NATO.

Expenditure projections in the state budget for the next medium-term period are prepared on the basis of three key postulates: 1) full harmonisation of the revenue projection with the planned economic activities; 2) projection of total expenditures of the state budget ensures continuous fiscal consolidation and 3) planned amounts of expenditures ensure smooth performance of all obligations of the state arising from legal regulations.

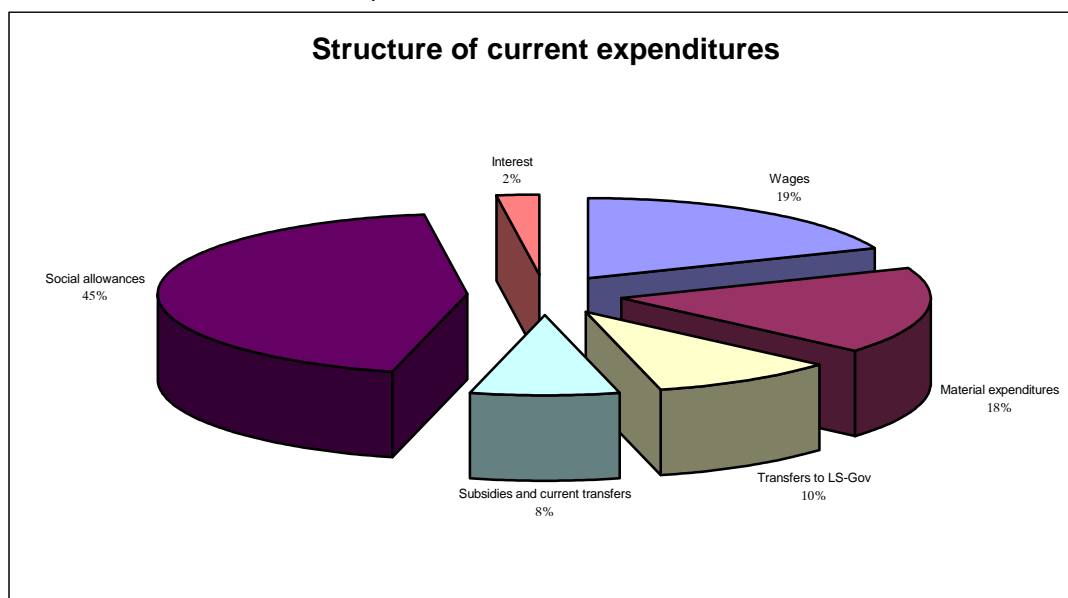
The average share of expenditures of Budget of the Republic of Macedonia in the next medium-term period in GDP remains is around 36%. At the same time, the structure of the expenditure side is envisaged to improve by strengthening of the development component, while current expenditures are reduced.

When projecting the expenditures for the next period, the following assumptions were taken into account:

- Expenditures for payment of salaries and allowances include the effects of the gradual salary increase of the employees in state administration bodies by 10% in the coming two years, the institutional strengthening of the public administration through new employments related to integration and reform processes, effects of the further employment control, as well as transfer of part of the salaries according to the second phase for fiscal decentralisation to be implemented in 2008;
- With regard to current expenditures, the share of social insurance continues to prevail. In fact, their share in 2007 was estimated at 46%, and in the next medium-term period they gradually declined to around 44%.
  - Around 98% of the expenditures of the Pension Insurance Fund refer to the payment of the rights of the basis of pension and disability insurance. Thereby, expenditures for pensions were projected on the basis of the estimated increase of the number of pension beneficiaries and the calculated pension indexation in accordance with the projected indicators of the growth of the cost of living and the salaries in the next medium-term period (pension indexation is made twice a year, according to the semi-annual rise of the cost of living and the salaries in the country);



Chart 6: Structure of current expenditures



Source: Ministry of Finance

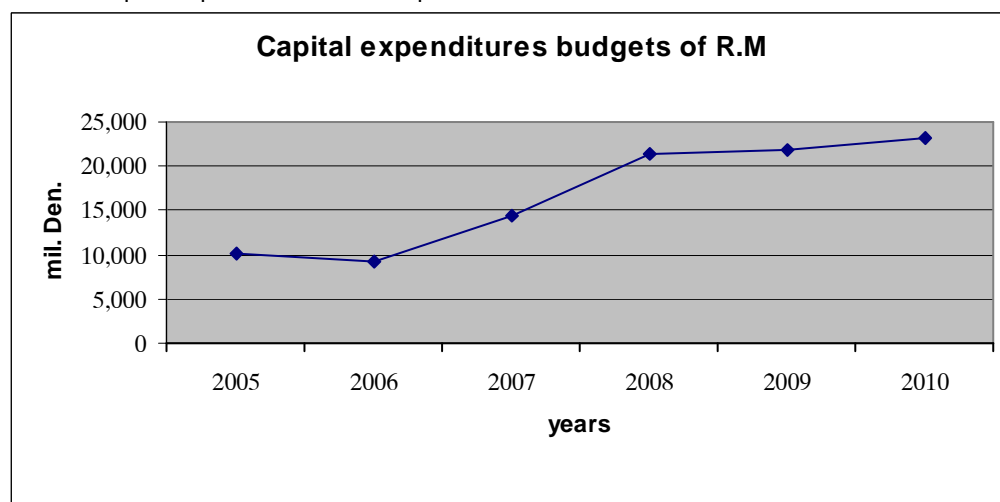
- Around 95% of the total expenditures of the Employment Agency in this period will be focused on payments for the unemployment rights, the assessment of which took into account the existing number of persons using these rights, the projected costs arising from the implementation of structural reforms and reforms in public administration and the economic assumptions on job creation;

- In the next medium-term period around 97% of the total expenditures of the Health Insurance Fund will be focused on services and allowances arising on the basis of health insurance of the population. Within this framework, the share of costs for hospital treatment and costs for primary healthcare prevails;

- Within the medium-term projections of social transfers, funds were planned for regular coverage of obligations of the state towards the socially most vulnerable families in the form of social welfare, child allowance, and allowances on the basis of the rights of disabled persons, invalids of war and civilian invalids and asylum seekers. Planned reforms in the social sphere and employment sphere would contribute to gradual reduction of their share;

- In the course of 2007, the second phase of the fiscal decentralisation commenced and accordingly, higher block grants are planned for the local government units necessary to cover the municipal costs resulting from the delegated competences;

Chart 7: Capital expenditures of the Republic of Macedonia



Source: Ministry of Finance

- The need to increase public investments which would directly improve the road and utility infrastructure, improved conditions in the educational and health system, as well as improving the cultural and social life of citizens. According to the medium-term projections on investments, share of **capital expenditures** in the total expenditures of the Budget of the Republic of Macedonia increased from 12% in 2007 to 15% in 2010.

### Projected deficit and its financing

The budget of the Republic of Macedonia in the next medium-term period will be characterised with exceptionally low level of deficit of around 1.5% of the planned GDP, including the central budget deficit and the deficit of the Road Fund.

The central budget deficit in the period 2006-2008 is planned to be around 1.3% in 2008 and 2009 (including credit disbursements by budget users to their own accounts in the amount of around 0.3% of GDP) in relation to the planned GDP.

Financing of the projected central budget deficit in the next medium-term period will mainly be provided from domestic sources, via continuous issues of government securities and bond, as well as via usage of government deposits. Foreign borrowing, as a source of financing, would be used by budget users for specific projects and by the Road Fund in accordance with the concluded contracts for construction of certain road sections of the national roads in the country.

Low deficit level, in conditions of existing of sources of its financing, is a result of the need to continue coordinating the fiscal policy and the monetary policy.

Table 7: Deficit and sources of financing

	2008	2009	2010
<b>Budget balance</b>	<b>-5,541</b>	<b>-5,864</b>	<b>-6,508</b>
<b>Financing</b>	<b>5,541</b>	<b>5,864</b>	<b>6,508</b>
<b>Inflows</b>	<b>12,524</b>	<b>13,902</b>	<b>14,726</b>
Revenues from privatisation	200	170	140
Domestic borrowing	4,000	4,000	6,000
Deposits	3,379	6,402	4,533
Foreign borrowing	4,945	3,330	4,053
<b>Outflows</b>	<b>6,983</b>	<b>8,038</b>	<b>8,218</b>
Repayment of domestic debt	5,234	5,930	5,784
Repayment of foreign debt	1,749	2,108	2,434

Source: Ministry of Finance

### Local government budget

Budgets of local government units as an annual plan covering the revenues, other inflows and appropriations in the coming medium-term period will become even more important for the successful management of public finances.

The Ministry of Finance, in cooperation with the municipalities, achieved significant improvements in the course of 2006 budgetary process; included in the form were the adoption of municipal budgets. New economic classification provided greater flexibility when planning the budgetary funds for programme implementation, and improved the manner of reporting in line with the international standards, as well as the transparency by establishing programmes and sub-programmes. Municipal budget form was harmonised with the one of the state budget. The adoption of a budget calendar by the municipalities and observance of deadlines set therein proved to be a positive instrument in the overall budget process.

Consolidated management with public finances and the application of budget principles in financing the local government units, as well as strengthened financial controls, enabled the implementation of the fiscal decentralization and proper management with public finances at a local level.

The second stage of the fiscal decentralisation process commenced in the course of 2007. The financing responsibility was transferred to forty-two municipalities, having successfully fulfilled the requirements for full fiscal decentralisation, which was carried out through block grants. These grants also contain the funds necessary for the salaries and allowances to the employees in the local institutions in the field of education (primary and secondary schools), culture (houses of culture, libraries, etc.) and social protection (kindergartens and homes for elderly people).

Taking into account that the local government units in the initial period of the decentralisation cannot borrow, planned revenues and expenditures in their budgets were fully harmonised. Thereby, total revenues and expenditures are planned at a level of around 3.0% of GDP in the first phase of the decentralisation process, while after 2008, by transferring block grants from the central budget, which would also include salaries of the employees from the delegated competences to the local level, revenues and expenditures of local government are expected to rise to around 5% of the GDP.

The revenue structure shows a significant share of revenues from property tax and utility taxes, as well as transfers from the central government. In this period, the expenditure side of the budget of the local government shows a significant share of capital expenditures (around 43% of total expenditures), while after the implementation of the second phase of the decentralisation, expenditure structure changed in favour of the current expenditures including the salaries of the employees in education, child care and social protection and culture.

Genuine revenues of municipalities are provided from local taxes and fees established by the Municipal Council within the set range of proportionate rates and the municipality makes its own assessment of revenues, and they are informed through the budget circular of the Minister of Finance in the amounts of the transfers. Additional, for example, new tax revenue of the municipalities will be the tax on business immovable property, such as taxation of residential buildings in villages and mountainous regions and these changes will start to be applied as of 1<sup>st</sup> January 2008. Modifications are underway to the Law on Utility Fees, envisaging an increase of the utility fee on street lighting, as well as to the Law on Administrative Fees, and certain fees will be additional new revenue for the municipalities.

The modifications to the laws regulating the utilisation of public national goods (water, mineral raw materials) provides revenue from concessions to the municipalities in the cases when the public goods exploited is located on the territory of the respective municipality. New revenue of the municipalities will be the fee paid by the large polluters according to the Law on Protection of Environment.

## **2.4 Public Debt Management**

### **Policy of Borrowing and Issuance of Guarantees**

Legal regulations governing the borrowing of public sector in the Republic of Macedonia encompass the following:

- Public Debt Law
- Budget Law
- Law on Local Financing
- Public Debt Management Strategy

Borrowing by the public sector can be in a form of a loan from domestic or foreign creditors or in a form of government securities issued on domestic or foreign capital market.

Public debt issuers, pursuant to the Public Debt Law are the following: Government of the Republic of Macedonia, the municipalities and the city of Skopje, public enterprises and companies being fully or

predominantly owned by the state, while debt of the National Bank of Macedonia is not included in the public debt.

Basic objectives of public debt management, pursuant to the Public Debt Law are the following:

- stable financing of the needs of the state with minimum cost, on medium- and long- term, and with reasonable risk level; and
- development and maintenance of efficient domestic financial market.

Regarding external and domestic borrowing, as well as issuance of sovereign guarantees for external and domestic financing, pursuant to the Public Debt Law, a positive opinion must be obtained from the Ministry of Finance, followed by an approval by the Government of the Republic of Macedonia. Should it be a matter of external borrowing and issuance of sovereign guarantee for external borrowing, a law needs to be adopted by the Parliament of the Republic of Macedonia.

Borrowing by the local government units is regulated pursuant to the Law on Local Financing and by the Law on the City of Skopje. Municipal borrowing can be short-term and long-term. The total amount of the short-term borrowing cannot exceed 20% of the level of operating revenues realised in the previous fiscal year. The total amount of the long-term borrowing cannot exceed 15% of the level of operating revenues realised in the previous fiscal year.

Borrowing procedure is elaborated in more details in the Rulebook on the Manner and the Procedure for Borrowing by Municipalities and Public Enterprises in the Republic of Macedonia.

The framework for the borrowing policy in the Republic of Macedonia is the medium-term Public Debt Management Strategy.

It sets the framework for external and domestic borrowing in the period 2007 – 2009 and provides guidelines for improvement of the features of the debt portfolio of the Republic of Macedonia.

Regarding the organisational structure for the Public Debt Management Department is fully staffed and it comprises following Units:

- Unit for Borrowing and Investments (Front Office), and
- Unit for Records, Monitoring and Servicing Public Debt Liabilities (Back Office).
- Unit for Public Debt Management Policies and Risk Analyses (Middle Office).

It is also planned to create a software application in 2007, in which integrated database on overall state debt will be created.

Public Debt Management Department within the Ministry of Finance cooperates and coordinates with the following: EU Harmonisation and International Finance Department, Budget and Funds department, Treasury Department, Financial System Department and Macroeconomic Policy Department. On the other hand, the Ministry of Finance cooperates with the following institutions in managing public debt: National Bank of the Republic of Macedonia, Securities and Exchange Commission, Central Securities Depository, commercial banks and other market participants.

Ministry of Finance has signed an agreement for fiscal agent with the National Bank of the Republic of Macedonia to carry out auctions of government securities and an agreement with the Central Securities Depository for registering, keeping and submitting data on holders of government securities.

### **Public Debt of the Republic of Macedonia**

Public debt of the Republic of Macedonia comprises public sector liabilities on the basis of external and domestic borrowing. Segments of public sector covered in the calculation of public debt depend on the applied methodology. In fact, so far the data on the stock of public debt of Macedonia were presented by applying the GFS methodology and according to the national methodology. The difference between these two methodologies is in the scope of data encompassed. Actually, according to the national methodology, set in the Public Debt

Law, the public debt comprises the general government debt, municipal debt and the debt of the public enterprises. Unlike this methodology, calculation on the basis of the GFS methodology also covers the debt of the National Bank of the Republic of Macedonia. Hereinafter, the data on public debt will be referred to as calculated under the GFS methodology, and the application of the national methodology will be indicated.

Most part of the public debt portfolio of the Republic of Macedonia comprises liabilities towards official and private creditors. The biggest share in the public debt portfolio accounts for the following official creditors: the World Bank, the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB), etc. In addition, the portfolio also comprises government liabilities that are a result of the resolving of structural problems in the process of transition of the Macedonian economy. To this end, the Government issued so-called structural bonds that significantly influenced the increase of the stock of public debt. Especially significant was the effect of the bond for old foreign exchange saving that dated as a liability from the very independence of the country, however the Government issued it in 2000 in the amount of EUR 546.5 million to the end of reimbursing the foreign currency deposits to the citizens that were frozen in the banks in the Republic of Macedonia, after the dissolution of the former Yugoslav federation. As a result of the issue of this bond, the stock of public debt formally increased to EUR 2.2 billion in 2000, being 57.2% of GDP. Since then, the rate gradually declines each consecutive year and as of December 2006, it amounted to EUR 2 billion, while as of July 2007 it amounted to EUR 1.9 billion, being 35.6% of GDP and compared to the previous year, the debt-to-GDP ratio dropped by significant 5 percentage points, above all, as a result of the early repayment of the debt towards the Paris Club of Creditors in the amount of EUR 77 million, part of the credits towards the International Bank for Reconstruction and Development in the amount of EUR 96.1 million, debt towards the International Monetary Fund in the amount of SDR 29.2 million (EUR 32.8 million) and Denar 1,302.5 million for early buyback of the Stopanska Bank Rehabilitation Bond.

General government debt which, on 30<sup>th</sup> June 2007, was 35.6% of GDP, is below the limit set in the Maestricht criteria, according to which government public debt should not exceed 60% of GDP. Objective of the Government is to keep this trend in the future. To this end, the medium-term public debt management strategy sets the objective to reduce general government debt by 2009 and to range between 34% to 37% of GDP. Limits are also set for public debt, which will have a declining trend, ranging between 37% to 40% of GDP.

Table 8: Public debt

EUR million

basis	year								30/06/2007
	1999	2000	2001	2002	2003	2004	2005	2006	
<b>EXTERNAL PUBLIC DEBT*</b>	<b>1.289,6</b>	<b>1.427,7</b>	<b>1.397,6</b>	<b>1.267,6</b>	<b>1.178,9</b>	<b>1.178,6</b>	<b>1.441,2</b>	<b>1.223,0</b>	<b>1.012,8</b>
General Government Debt	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	857,0
Central Government (consolidated)	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	857,0
Central Government	971,5	1.101,0	1.144,1	1.050,4	972,6	962,3	1.208,0	981,9	823,1
Public Funds	53,2	52,9	47,8	38,6	33,0	30,9	37,4	43,3	33,9
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Central Bank	101,2	87,7	80,3	64,7	54,7	46,0	52,7	42,4	0,0
Public enterprises	163,6	186,2	125,4	114,0	118,7	139,4	143,2	155,4	155,8
<b>DOMESTIC PUBLIC DEBT</b>	<b>113,6</b>	<b>791,0</b>	<b>733,3</b>	<b>676,0</b>	<b>665,0</b>	<b>663,9</b>	<b>750,4</b>	<b>806,5</b>	<b>910,6</b>
General Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,7	648,4	660,5
Central Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,5	648,2	660,5
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,2	0,2	0,0
Central Bank	33,8	79,3	51,8	49,1	71,4	74,1	146,7	155,3	247,7
Public enterprises**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,8	2,4
<b>TOTAL PUBLIC DEBT-GFS</b>	<b>1.403,2</b>	<b>2.218,7</b>	<b>2.130,9</b>	<b>1.943,7</b>	<b>1.843,9</b>	<b>1.842,5</b>	<b>2.191,6</b>	<b>2.029,5</b>	<b>1.923,4</b>
Public debt as % of average GDP	40,7	57,0	55,5	48,6	44,9	42,6	47,1	40,6	35,6
Public debt as % of average export	125,6	154,8	165,2	164,7	153,1	136,7	133,6	106,1	90,6

Source: Ministry of Finance and NBRM

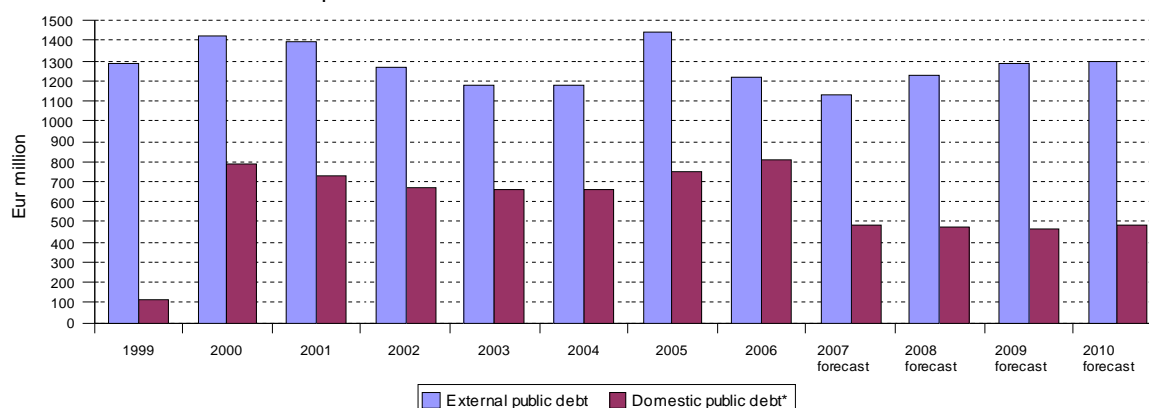
\*\*Since April 2006, public enterprises began submitting the first reports on public debt stock (in line with the Public Debt Law) to the Ministry of Finance.

## Public debt structure

Since 1999, **ratio between external and domestic debt** shows gradual increase of domestic debt compared to external debt and as of 30<sup>th</sup> June 2007, it amounted to 47.3%, compared to 52.7% of external debt.

Share of domestic debt should gradually increase, and the one of the external debt should decline, in line with the budget needs, the market conditions, the capacity and possibilities of the financial system in the Republic of Macedonia. Thus, sound development of the domestic securities market will be provided, which will be the main support to the state regarding the borrowing policy. At the same time, dependence of the financing side of the budget on the foreign borrowing and the fluctuations on the international capital and money market will be decreased.

Chart 8: External and domestic public debt

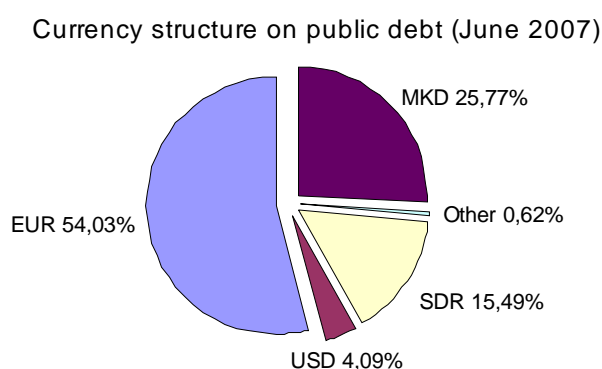


Source: Ministry of Finance and NBRM

\*Projection on the domestic public debt do not include the monetary policy instruments (central bank bills and treasury bills for monetary purposes).

High share of external debt in the total public debt, as well as the fact that 45.6% of the domestic debt is denominated in euros, results in dominant share of foreign-currency denominated debt (74.2%) in the **currency structure of public debt**, while the share of debt in domestic currency is 25.8% and refers mainly to securities the government and the National Bank regularly issue on the financial markets.

Chart 9: Currency structure of public debt:



Source: Ministry of Finance and NBRM

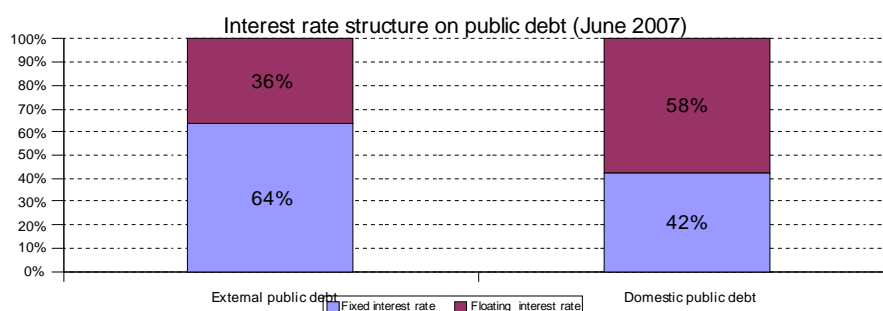
Such structure points to large exposure of the total debt portfolio to a exchange rate risk of the Denar in relation to other currencies in which debt is denominated. Having in mind the current exchange rate regime in the Republic of Macedonia, one could conclude that the level of exposure of debt to foreign currency risk is moderate. However, under the assumption of a significant devaluation of the domestic currency, it would directly affect budget costs, from the point of view of the need to provide additional funds to cover increased costs for

repayment of foreign currency denominated debt. Thus, highest priority for the Ministry of Finance is to reduce the proportion of foreign currency denominated debt, and to increase the portion of the Denar denominated debt. Therefore, a need arises to develop the domestic government securities market, meaning increased issue of government securities in Denars.

**Interest rate structure** is balanced, whereby 53.6% of the public debt portfolio is with fixed interest rates and 46.4% with floating interest rate (this percent includes the debt with a maturity period of 12 months, including treasury bills and central bank bills).

Significant share of floating interest rate debt in the overall public debt portfolio exposes the portfolio to a risk of higher interest costs. Therefore, it is necessary to continuously increase the debt with fixed interest rate, and to reduce the floating interest rate debt.

Chart 10: Interest rate structure on public debt



Source: Ministry of Finance and NBRM

**Regarding the maturity structure**, one can conclude that the average maturity of the external debt increased in June 2007 compared to the declining trend in 2005. This increase was mainly due to the early repayment of the debt with shorter maturity period.

Maturity of domestic public debt, which at end-2006 was 3.03 years and 2.9 years in June 2006, could be considered alarming, since it results from the financing of long-term structural bonds by issuance of short-term government securities. The increase of the short-term public debt means growth of the refinancing risk since greater portion of the domestic financing needs are currently covered by issuance of continuous treasury bills. Refinancing risk will be reduced by introducing instruments with longer maturity periods, although this usually involves higher public debt servicing costs due to the risk premium for the longer-term investments. By increasing the confidence in the issuer and the greater demand by the investors, the domestic government securities market gradually expands. Each new market segment at the beginning is shallow, with low absorption power, but it gains in importance over time. Market deepening is supported by the expansion of the investor base and the participation of the newly established pension funds is of great significance. This process contributes to declining of the yield of the long-term bonds, as well as to lower price volatility and greater liquidity, thus enabling lower refinancing risks.

**Public debt servicing costs** are evenly distributed over time, so as to avoid a situation where their volatility or greater concentration in a certain period has a destabilising effect on the budget. Liabilities on the basis of principal and interest related to GDP continuously decline, except in 2006 and 2007, when the repayments were significantly higher and were a result of the early repayment of the debt towards the London Club of Creditors and the continuous bond no. 02/2005 in the course of 2006, as well as the repayment of the debt towards the Paris Club of Creditors, part of the credits towards the International Bank for Reconstruction and Development, debt towards the International Monetary Fund, part of the credits towards the European Investment Bank and the Stopanska Bank rehabilitation Bond in the course of 2007.

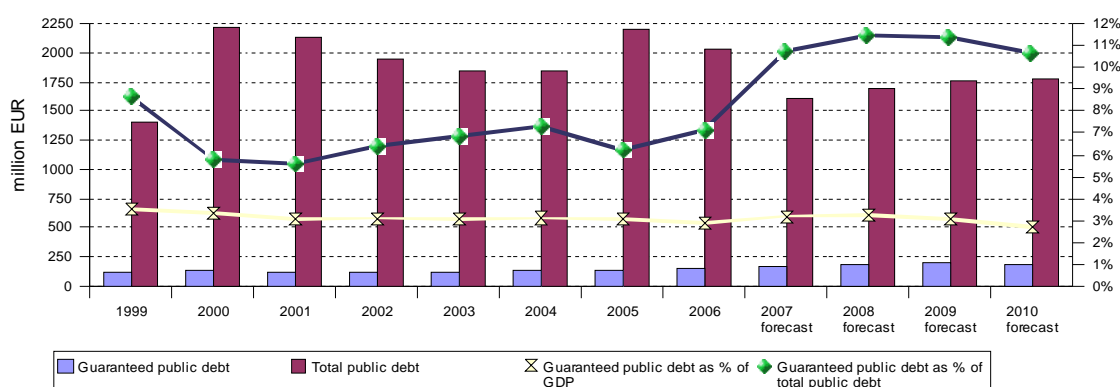
### Guarantees

Sovereign guarantee is a potential liability assumed by the Republic of Macedonia for the account of the issuer of public debt, on behalf of which the guarantee is issued. Most of the guarantees were issued to public enterprises that used funds from foreign creditors.

The stock of guaranteed public debt shows gradual upward trend and as of June 2007, it amounted to EUR 144.8 million, i.e. 2.6% of GDP and 7.5% of the total public debt. Abrupt increase of the guaranteed public debt in relation to the total public debt was not due to the additional issuance of guarantees, but rather to the reduction of the total public debt as a result of the early repayments carried out in the course of 2007.

So far, the main debtors regularly service their liabilities under foreign loans, excluding two public enterprises, which due to their unfavorable financial situation do not pay their liabilities in due time, and as a result of this, the issued guarantees were called-up. In order to reduce major risks the country could face in the future if the guarantees are called-up, future policy would be focused on applying restrictive approach in the approval of guarantees, especially to public enterprises which often face liquidity problems.

Chart 11: Public debt and guaranties



Source: Ministry of Finance and NBRM

Measures to further develop the secondary market of government securities (see Box 2) include:

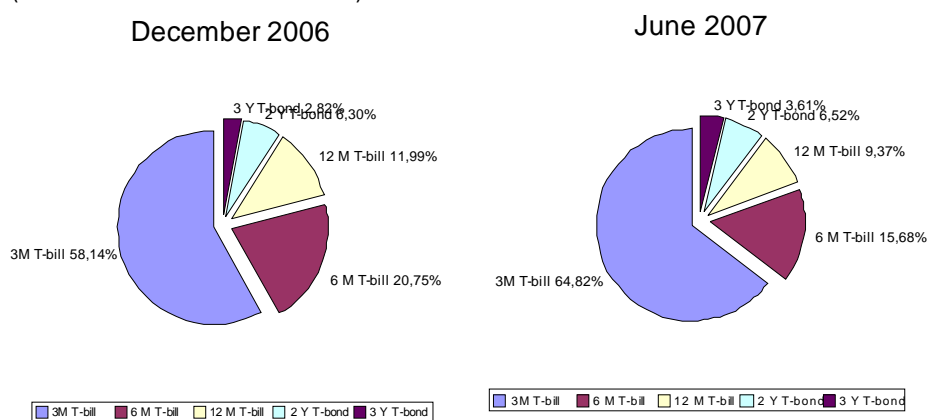
- increase of the annual net issue of government securities;
- using repo operations by the NBRM and the banks;
- enabling the usage of repo and OTC trading for the continuous long-term government securities as well;
- monitoring the activities of the banks on the government securities market and possible selection of primary dealers with defined obligations for the secondary market (market makers);
- further increase of the transparency of the results from the OTC trading;
- maintaining an active dialogue with credit rating agencies;
- attracting investors and diversification of the investor structure;
- ensuring integrated records in the form of public debt registry.



Box 1: Activities related to the **development of government securities market** began in 2003 when the Government adopted Strategy for Development of Government Securities Market.

The adoption of this Strategy was basis for initiation of an issue of continuous government securities. In January 2004, the Ministry of Finance successfully launched the first issue of continuous government securities (3-month treasury bills), and as of June 2007, it regularly issues 3-, 6- and 12-month treasury bills, as well as 2- and 3-year government bonds, and it has also issued a 5-year bond, being early bought back in December 2006. Government securities are denominated in Denars and are issued in dematerialised form.

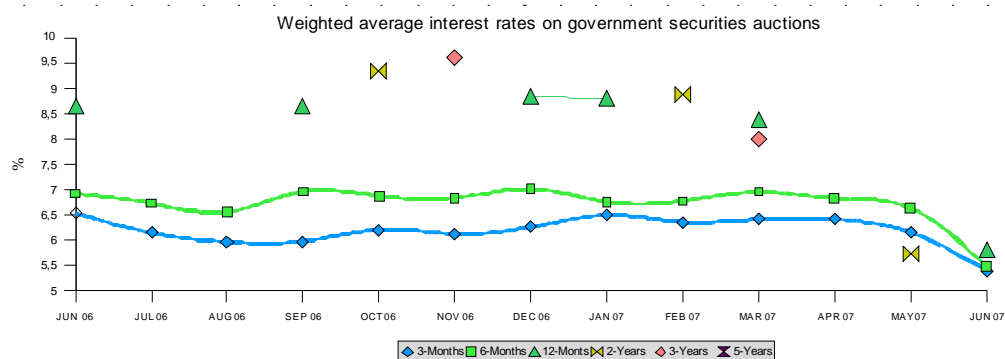
As of 30<sup>th</sup> June 2007, the stock of issued government securities was Denar 14.0 billion, Denar 12.6 billion of which were treasury bills, and the remaining Denar 1.4 billion were government bonds. The charts below show the stock of government securities by maturity period, from the aspect of the issuance date (December 2006 and June 2007)



Source: Ministry of Finance

Observed cumulatively, as of June 2007, share of banks in the ownership structure of government securities was 79%, while the clients participated with 21%.

Interest rates on treasury bills since their introduction till today are market determined, i.e. they are determined by the demand and the supply on the auctions. The chart shows the trend of interest rates on government securities on the basis of their maturity in the period June 2006 – July 2007. It clearly shows a continuous declining trend of interest rates on Government securities related to certain maturity.



Source: Ministry of Finance

Box 2: The existing regulations on **secondary trading** in the Republic of Macedonia enable trading in government securities on the Macedonian Securities Stock Exchange, as well as trading in continuous government securities on the OTC market.

In April 2005, NBRM, in cooperation with the Ministry of Finance, adopted Rulebook on the Manner and the Procedure for Trading and Settling Transactions in Securities on Over-the-Counter Market. By adopting this Rulebook, over-the-counter market (OTC) for trading in treasury bills started functioning officially, and as of July 2006, it was supplemented by trading in continuous government bonds. In order to further improve the OTC markets, in February 2007, as a result of the suggestions by the Market Committee, Rulebook on the Manner and the Procedure for Trading and Settling Transactions in Securities on Over-the-Counter Market was amended, obliging the participating banks owing continuous government securities to be listed regularly on daily basis. This obligation is binding for the amount of Denar 1,000,000.00.

Trading on the OTC market currently incurs no transaction costs. The participating banks earn profit only from the spread between purchase and sale price. Additional advantage of this market is that the settlement of the transactions is in real time, i.e. immediately after the transaction is executed. As a result of the aforementioned advantages, the number of transactions on this market gradually increases.

This set of measures is undertaken so as to enhance the development of the secondary market.

There were also improvements on the Macedonian Stock Exchange regarding the secondary trading in continuous government securities, leading to abolishment of the fees of the Stock Exchange and the Central Securities Depository. Brokerage fees remain to be the only trading costs.

Secondary trading in structural bonds on the Macedonian Stock Exchange experienced no changes.

### 3 STRUCTURAL REFORMS

#### 3.1 Enterprise sector

##### 3.1.1 Privatisation

**Basic features and legal solutions** - The privatisation process in the Republic of Macedonia can be considered as nearly completed.

In the later period the privatisation included also part of the health sector: pharmacies, spas, parts of the primary health protection, but also some of the large infrastructure objects, which were privatised pursuant to special laws. In that sense, the largest privatisations in the field of infrastructure activities were the privatisation of Macedonian Telecommunications in 2001 and the restructuring and privatisation of "Elektrostopanstvo na Makedonija"-the power company, where the distribution component was separated from the power system and was privatized in 2006. With special laws, gradually the privatisation in parts of the public sector is becoming regulated, such as health, culture and parts of the public enterprises.

**Privatisation plans** - It is expected that the privatisation process will continue by completing the privatisation in the companies with social capital (about 20). The shares and the parts of the social capital that were transferred to the Privatisation Agency have been transferred to the Pension and Disabled Insurance Fund of the Republic of Macedonia for further sale and it is envisaged that the sales will continue through the Macedonian Long-term Securities Stock.

In the further privatisation process it is expected that as a subject of transformation are included institutions, parts of public institutions, parts of public companies, and other entities depending on the special laws that are and would be enacted.

As already mentioned, the privatisation of public companies started from the sale of the majority package of shares of Macedonian Telecommunications AD, in 2001. The rest of the 47,12% of the company's shares, which were in state ownership, in the period 5-9 June, 2006, were offered for sale in four packages of 9,9% and one package of 5,52% (intended for minority shareholders) through the Macedonian Long-term Securities Stock. Of these packages, a package of 9,9% as well as 0,41% of the shares were sold. The unsold shares would be the subject of a new sale.

The privatisation also started in the social sector and in the public sector. Part of the non-core activities in the health and education sector and the administration was separated from the state services and was transferred to the private sector. The government started the process of giving concessions for the use of large infrastructure objects, and among them the largest ones are the state airports, where procedure was started for searching for investors that would be interested in managing the airports on the basis of concession.

The financial sector was subject to a special privatisation program, and some banks have been subject of serious rehabilitation processes. The government started the process of sale of the residual capital in the commercial banks before the end of 2005, excluding the Postal Bank and the Macedonian Bank for Development Promotion. The sale of the other shares in the banks has been completed.

Macedonian railways are undergoing a significant restructuring process, where their work is divided between the transport and infrastructure. The final objective is that the part which works with transport to be privatised while infrastructure would stay in state ownership.

##### 3.1.2 Industrial Policy and Strategy

The directions of the future industrial policy of the Macedonian economy are incorporated in several strategic documents, such as the National Strategy for Integration of the Republic of Macedonia to EU (adopted in the second half of 2004) and other framework documents, strategies or annual programs for current policy related to certain economic sectors. Basic elements of the industrial policy of the Republic of Macedonia are the following:

- Reforms in direction of building an operational market economy. In that sense, gradual harmonisation and accepting the Acquis;
- Completing the privatisation process and enliven the process of public-private cooperation;
- Taking measures for strengthening the competitiveness of businesses;
- Implementing measures for stimulating the growth of domestic and foreign investments;
- Promotion of the SMEs and entrepreneurship development.

According to the National Strategy for Integration of the Republic of Macedonia to EU, the industrial policy of Macedonia has been segmented in two related approaches in order to increase its competitiveness: horizontal and vertical (sectoral) approach. The set of measures and programmes of the horizontal dimension of industrial policies are as follows:

- Promotion, which includes: export promotion, FDI promotion and SMEs support;
- Stimulation, which includes: promotion of production factors, construction of information society and development of IT and communication technology as well as stimulating the scientific-research work, economy of knowledge; and
- Promotion of corporative strategies and organizational structures that include: management education, business restructuring (modernisation), harmonisation and introduction of international technology standards in the Republic of Macedonia and promotion of corporative governance.

Within the Ministry of Economy an Industrial Policy Unit has been established, this unit is responsible for drafting the strategy for industrial policy<sup>4</sup> as an integrated and comprehensive policy leading towards increasing the competitiveness of the economy. This strategy will be developed in close cooperation with the consultants and will be based on the previously prepared study on measuring the indicators for competitiveness and where priorities for increasing the competitiveness of the sector that will be reached through different instruments will be identified.

The strategy for industrial policy will be prepared in 2008, and will comprise of concrete measures and instruments for increasing the competitiveness of the economy reaching the identified priorities.

One of the proposed projects is the support of companies in internationalization by offering them a better information base for export possibilities and initiating coordination of the approach to new markets.

There is evident progress from the aspect of accepting the idea of clustering and clusters and the understanding for the benefit of associating and establishing a network within the clusters. The activities related to initiation and support of clustering are intensified and are coordinated by the Ministry of Economy, by creation of a new cluster association for the increase in the competitiveness of some sectors. To this date, there was an initiation for the foundation of a cluster for wood industry and for processing food and vegetables - eco food.

Besides the competitiveness and clustering project, within the vertical approach of industrial policy, several strategies for the development of different sectors (such as textile, steel, tourism) have been prepared.

Within the Department for Industrial Policy and Investments in the Ministry of Economy, a Strategy for Development of the Textile Industry in the Republic of Macedonia has been prepared. This document, should stimulate the development of the textile industry in the future period by its restructuring for the production of higher-profit textile items with their own brand, slowly abandoning the present low-profit work on a "Inward processing" base system. An action plan with concrete measures for revitalisation of the textile industry will be promoted in 2008, which will secure successful implementation of the Strategy.

Within the steel industry, the *National Strategy for Restructuring of the Steel Industry and its Implementation* has been prepared, as an obligation of the Protocol 2 of the SAA, whose basic objectives are the following:

- Stimulating the development of internationally competitive steel industry in the Republic of Macedonia;

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<sup>4</sup> Accession Partnership priority, chapter 20 – : Enterprise and industrial policy - Define and implement an industrial strategy conducive to growth and innovation.

- Providing long-term employment;
- Contributing to the development of down-stream industries;
- Increasing the level of added value from the steel and related industries, generated within the industry of Macedonia.

The strategic objective of the National Restructuring Program is creating conditions where the steel companies in the country may bring a maximum to their profitability by increasing the profit and reducing the costs, for which individual business plans for each company were prepared, and at the same time to contribute to the economic development of the country. In 2007, there was a first bulletin published for the Macedonian steel industry, and this activity will continue in future.

### 3.1.3 Business environment and SME's

#### Support of the Entrepreneurship and Small and Medium Size Enterprises

*- Activities and Movements in 2006 and the First Half of 2007*

The small and medium size enterprises are a dominant type of enterprises in the Macedonian economy. In 2005, 98,8% of all enterprises were small and medium enterprises. Since 2003, in particular, the SME has developed successfully. The number of active SME (legal entities) has increased by 25% (from 37 000 in 2002 to 44 000 in 2005), that presents an average annual increase of approximately 2 300 SME. As to the number of SME on 1000 inhabitants, the number has increased from 19 to 22. As a result of this the employment increased by 32% from 110 000 (in 2002) to 145 000 employees (in 2005).

**Table 9: Share of SME in National Economy in relation to Number of Employees, Enterprises, Gross VAT and Export**

Structure in %

	No. of Employees			Number of Enterprises			Gross VAT			Export		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Small	58,4	59,3	64,2	98,3	98,6	98,8	50,4	51,6	52,3	39,8	41,6	38,0
Medium	18,2	20,3	12,0	0,8	0,8	0,7	18,5	20,3	11,5	13,0	13,7	13,2
<b>Total SME</b>	<b>76,6</b>	<b>79,6</b>	<b>76,2</b>	<b>99,2</b>	<b>99,4</b>	<b>99,5</b>	<b>68,9</b>	<b>72,0</b>	<b>63,9</b>	<b>52,8</b>	<b>55,3</b>	<b>51,3</b>
Big	23,4	20,4	23,8	0,8	0,6	0,5	31,1	28,0	36,1	42,5	42,6	47,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>4,7*</b>	<b>2,1*</b>	<b>1,1*</b>
										<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

\*Non-allocated

Source: State Statistics Office

The achieved progress is the result of the following undertaking and implemented measures and activities in relation to accelerating the process of SME development and entrepreneurship in the earlier period:

- Documents have been prepared providing the development framework of SME sector.

Namely, in the direction of implementing the European Small Enterprise Charter, the orientation of the revised Lisbon Strategy and the Program on Competition and Innovation of EU, the Government of the Republic of Macedonia adopted a Revised National SMSE Development Strategy in the Republic of Macedonia from 2002-2013 including a 2007-2010 Entrepreneurship, Competition and Innovation Development Program of Small and medium Size Enterprises .

This program defines precise measures, activities and projects that will be implemented in the next period for the purpose of increasing of the SME competition and innovation.

Both the strategy and program reflect the government's reform agenda as defined in the 2006-2010 Government Strategy and Governmental Working Program, the European Charter for Small and Medium Enterprises with a review of the acquis including the entrepreneurship funds.

- Based on the four year program, the government also adopted a **2007 Development Program on Entrepreneurship, Competition and Innovation of Small and Medium Size Enterprises** (Official Gazette No. 62/07) which provides the purpose of the resources for the support of entrepreneurship as provided by the 2007 Republic of Macedonia Budget.

- The second stage of the program implementation, the Human Resource Development Fund Project in 2006 in the training program trained 80 managers. The activities continued in 2007 and in May the Academy of Young Trainers was promoted. It is anticipated for the fund to become stronger for the purpose of improvement of manager training in enterprises including the increase in levels of training and standards between the trainers, consultants and SME.

Recently, following activities were realized:

- For the purpose of entrepreneurship integration as key components of politics in the secondary education, the entrepreneurship has become a regular subject in the curriculum of secondary schools.
- The "one-stop-shop" system in regards to company registrations is completely operational, in which the registration time has been shortened to three days with the intention to provide a one day procedure of firm registration which is now electronically possible. Also the number of offices enabled to complete registration has increased to 10 across a wider territory in the country.
  - The Voucher System Project of Advising was successful and continued in 2007.
  - For the purpose of promotion of the system to ensure tax deductions of micro enterprises the Income Law provides possibility to these enterprises to pay a lump sum tax.
  - The strengthening of the SME technological capacity and the implementation of recommendations of the European Commission on Higher Economic Growth and strengthening of the industrial development through connection with the resources based on the science knowledge at national and European level, shall initiate the establishment of an Innovation Transfer Centre. The establishment of this centre is still in progress. The consortium has been set up and the application has been filed to receive funds from the EU Program on Competition and Innovation. The project has also been supported by the Government of the Republic of Macedonia, which for this purpose in six years will allocate approximately Euro 100.000 per annum. The European Information Centre is also scheduled to be integrated into this centre.
  - Two new incubators have been established. There is a "Business Incubator for Young" established in Skopje, and the "Business Support Centre" in Bitola.
  - Since 2006 the SME Forum has existed as a model for dialogue of the Ministry of Economy – The Sector of Entrepreneurship with the private sector which is even more involved in the creation of the SME development policy in Macedonia.
  - On 9 May 2007, for SME promotion, a European Day of Entrepreneurship was organised in which the entrepreneurship was promoted not only locally and regionally. The promotion of international cooperation was promoted as well.

The short term purposes that need to be realised by the end of the year is as follows:

- Strengthening of Human Resource Development Fund for the purpose of training of promotion for managers in enterprises including increasing the training levels and standards between the trainers, consultants and SME.

- The co-financing for the establishment of two new Business Centres in municipalities, where previously the centres did not exist. These centres will work with the small enterprises to achieve a common infrastructure in order to increase the economic growth and employment.
- Strengthening of existing and establishment of new clusters
- Training for entrepreneurs through regional centres
- Promotion of entrepreneur training
- Strengthening of awareness for ICT, introduction of standards and quality

#### *Medium-term goals between 2008 and 2010*

The medium-term goals related to SME sector support of development will contribute to even more efficient operation of enterprises and creation of competition which are defined in the ***Revised National Small and Medium Size Enterprise Development Strategy in the Republic of Macedonia from 2002-2013 including in the Program on Development of Entrepreneurship, Competition and Innovation of Small and Medium Size Enterprise from 2007-2010***, and relate to the following:

##### 1. Strengthening of institutional infrastructure

Financing of activities of the Action Program of the Republic of Macedonia are the co-financing of new businesses, observatories for SME, the SME Forum, an Information Desk – a project in cooperation with the regional business support centres, the co-financing of Euro Info Correspondent Centre/IRC co-financing of Human Resource Development Fund/ Academy of Managers<sup>5</sup>.

##### 2. Improvement of business environment and access to finances.

Inter ministerial cooperation in relation to the implementation of the Program and European Charter, training for alternative methods of financing, implementation of Measures to decrease the grey economy, and co-financing of other grant projects.

##### 3. Improvement of SME competition and innovation

Co-financing of new clusters, co-financing of new business incubators, co-financing of expenses for Development Centres related to SME non financial support, a voucher system of advising, entrepreneurship awards, lending of warehouse, entrepreneurship education, EU Day of entrepreneurs, promotion of awareness for ICT, a campaign on introducing quality standards, entrepreneur zones – drafting of projects, scientific-innovation connection, international scientific cooperation, promotion of awareness on the rights to intellectual property, life-long learning – entrepreneurship, post-graduate studies – entrepreneurship, publication of brochures on SMEs<sup>6</sup>.

As the result of the implementation of these activities, the number of small and medium size enterprises is expected to increase by approximately 4-5% including an increase in the number of jobs by 4-5% annually on average in the scheduled period 2008-2010.

#### **3.1.4 Competition policy**

The principal objective of the competition policy is to ensure free competition on the markets in order to stimulate economic efficiency and consumer welfare. In achieving this goal, it is essential that the undertakings active on the relevant markets compete in terms of price and quality. For that reason, competition laws condemn the abuse of a dominant position on a relevant market, agreements are prohibited, decisions and concerted practices (cartels) and concentrations that distort competition as a result of the creation or strengthening of a dominant position.

<sup>5</sup> Priority of the Accession Partnership Chapter 20 Enterprise and industrial policy – “Strengthen resources of the SME department and the SME Agency and ensure implementation of SME strategy and Action Plan and the European Charter for Small Enterprises”

<sup>6</sup> Priority of the Accession Partnership Chapter 20 Enterprise and industrial policy – “Consider strategy development on the mainstreaming of entrepreneurship education based on successful donor supported pilot projects

### Legal and institutional framework

In the course of 2006, changes in the field of competition policy were made as following:

- The law amending the Law on Protection of Competition was enacted. The Law introduces by this law were related to the extension of the period for prosecution of cartels from two to five years and the regulation of professional secrecy.
- The thresholds for notification of concentrations were lowered.
- Improvements in regard to the institutional capacity of the CPC were also made. The transparency of the work of CPC was increased with the creation of a web-page that is uploaded on a regular basis.

In the course of 2007, changes in the field of competition policy were made as following:

- The law on the Protection of Competition was amended so that the Commission for Protection of Competition (CPC) now has the right to conduct misdemeanour procedures and impose fines.
- Guidelines for the implementation of the law and the by-laws were enacted, published and distributed to the legal and business community as well as to the general public.
- The CPC took steps in raising the awareness of the competition policy by publishing leaflets and brochures containing the texts of the Law on Protection of Competition and the by-laws.
- The inter-institutional cooperation between the Commission for Protection of Competition (CPC) and the public bodies competent for specific-sector regulation was strengthened. Namely, Memorandums of Cooperation were signed between the CPC and the Agency for Electronic Communications, Energy Regulatory Commission and the Broadcasting Council. The Memorandum of Cooperation with the Public Procurement Bureau has been drafted and is about to be signed.
- Training and expert visits of the staff and the members of the CPC were organized on several occasions. One additional employment and one transfer of an employee took place in 2007. The procedure for three additional employments is pending.

The following activities are planned for the period 2008-2010:

- Harmonisation of the law on Protection of Competition with EU Regulations which regulate block-exemptions of agreements in the air-transport sector;
- Further harmonisation of the national legislation with the *acquis*;
- Further strengthening of the administrative capacity of the CPC under the BERIS project and additional employment of 3 people in 2008, 3 people in 2009 and 3 people in 2010. This project and the future employments are in line with the priority of the Accession Partnership Chapter 8 Competition policy – “Strengthen the administrative capacity of the Commission for Protection of Competition and provide the adequate budget and staff”;
- Improvement of the enforcement record<sup>7</sup>.

### 3.1.5 State Aid

#### Legal and institutional framework

By amending the Law on State Aid in the course of 2006, the competences for the monitoring of the State Aid transferred to the Commission for Protection of Competition (CPC). In 2007, the Law on State Aid was amended in order to incorporate the possibility of adoption of the regulation on rules and procedures for providing horizontal aid. The existing Regulation on Conditions and Procedure for Granting Aid for Rescue and Restructuring of Firms in Difficulty has been amended and fully aligned with *acquis*.

Within the CPC, since June 2006 a new State Aid Control Department has been established. Three people were employed in 2006, which increased the number of employees from 1 to 4. In the beginning of 2007, the number of employees in this department raised from 4 to 5.

By the end of 2006, each state aid provider had designated one person responsible for notifying the state aid to the CPC<sup>8</sup>, and the CPC had organized training for this newly established network. According to the amended

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<sup>7</sup> Priority of the Accession Partnership, chapter 8 Competition Policy – “Establish a credible enforcement record in the area of anti-trust and focus on the most serious infringements of competition law”.



rules of procedure, the Memorandum for submitting documents to the Government by state aid providers must include a reference to state aid compatibility.

The CPC prepared a partial inventory of state aid measures for the period 2001 – 2006. Unauthorised state aid granted by several government institutions was approved retroactively. The CPC issued 23 decisions on state aid approved for the period 2001 – 2006, 4 on state aid approved for 2007, and 9 opinions at the request of the state aid providers. It is important that the decisions of the CPC are respected by the other government institutions. The CPC has increased transparency and accountability by publishing all state aid decisions in the official gazette and on its new website<sup>9</sup>.

In the period 2008-2010 the following activities are envisaged:

- Additional employment of 2 people in the course of 2008;
- Training of the employees in the State Aid Control Department, members of the CPC, and designated individuals from the state aid providers;
- Harmonisation of the industrial policies with state aid regulations.

### 3.1.6 Energy Sector

#### Energy market

The legal base for energy safety is established by the Energy Law. **Amendments to the Energy Law**, transposes the EU Directive 2003/54/EC for internal market rules of electricity and creates conditions for the implementation of liberalisation of the electricity market in the domain of the direct consumers. With the restarting of the larger industrial companies in the Republic of Macedonia and the natural increase of the electricity demand in households as well as other types of consumers. In the last several years a deficit has appeared from electricity which is imported. Proposed legal solution gives bases for positive release of the providing of the additional quantities of electricity for consumers in the Republic.

With these amendments, large customers of electricity will be permitted to receive quantities of electricity provided by AD MEPSO and the other electricity markets. For defining of these quantities AD MEPSO established a criteria's for direct customers, such as the average consumed electricity in the past two years and permitted an increase from 15% of the average consumed electricity in the last two years in case of investment activities which have to be approved with valid documentation. Based on this criteria large customers will receive 45% from quantities of electricity from AD MEPSO at the regular price, and 55 % will be provided on the open electricity market at the market prices.

#### Treaty establishing the SEE Energy Community

The Republic of Macedonia signed the Treaty Establishing the Energy Community. The treaty was signed by SEE countries and the EU countries, on the 25 October 2005. The signing was followed by ratification in the national parliaments. The Republic of Macedonia ratified the treaty on 21 May, .2006. The treaty came into force on 1 July, 2006 (after it was ratified by a majority of the signatory parties). The main goal of this treaty is to provide energy trade liberalisation under the transparent and competitive conditions between the country from the region, and with the EU member states.

From the date when the treaty entered into force, obligation was created for the Republic of Macedonia to implement the provisions from the EU Directive 2003/54/EC and 2003/55/EC in the period of one year. With the Treaty Establishing the Energy Community of the SEE, which the Republic of Macedonia is a signatory, all non-household customers from 1 January, 2008 can choose their electricity supplier, and all the other customers will be able to make that choice from 1. January, 2015.

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<sup>8</sup> Priority of the Accession Partnership chapter 8 Competition Policy – “Establish effective ex-ante control of state aid”

<sup>9</sup> Priority of the Accession Partnership chapter 8 Competition Policy – “Increase awareness among government institutions, business and the general public.”

In the period from August to November 2006, in cooperation with the Secretariat of Energy Community, for every state member Road Maps were prepared, with compliance conditions, criteria and deadlines from which implementation of the treaty obligations will be managed. Road Maps were supported by the Ministerial Council.

The Government of the Republic of Macedonia adopted ***Actions plans for implementation of the Energy Community Treaty*** as a basic frame for the activities for implementation of the reforms in the electricity and gas sector in the Republic of Macedonia<sup>10</sup>.

In the past period more activities were seen, especially in the energy sector, among which the highest priorities were:

1. Introducing of a mechanism for allocation of the transmission capacity in the cross border transmission and transit under the market mechanism for solving of congestion. Realisation dynamic is coordinated with the neighbouring countries and experts bodies of the European Community authorized for these issues.
2. Provided compatibility and synergy between market rules which were in the preparation phase and prescribed Greed Code for Transmission. The final version of the market rules is in the phase of review by the Energy Regulatory Commission.
3. Continued with the development of the needed infrastructure with an aim of providing efficiency implementation of the further market rules and the adopted Greed Code for Transmission. The new interconnection with Greece was completed, and the interconnection with Bulgaria is rapidly being completed, with a plan to be finished by the middle of 2008. Currently, there is also upgrading and equipping of the internal transmission system in the Republic of Macedonia.
4. Strengthened cooperation between Energy Regulatory Commission and the Commission for protection of competition. In accordance to this, a protocol for cooperation between these two commissions was signed.
5. Implemented measures for liberalisation of the electricity market. Amendments and supplements were introduced in the Energy Law so that the large customers provided part of the needed electricity on the free market.

Currently, the Ministry of Economy is about to start to prepare the new electricity market model in the Republic of Macedonia, in order to be finished by the end of 2007, and to be implemented in the first half of 2008. The aim is that the new model will overcome the system obstacles in the implementation of the fully liberalised market without jeopardising the security of supply. The analysis and the preparation of the new market proposal were started with the cooperation of the World Bank and USAID.

With an aim to achieve efficient monitoring of the implementation of the efficiency of the ***Grid Codes for Transmission*** to be provided, in the coordination with the transmission system operator of the Republic of Macedonia-AD MEPSO, a committee for the monitoring of the implementation of the Grid Codes was established. Besides the fully implementation of the Grid Codes, the committee will monitor the problems in implementation and will propose changes and adjustments in accordance with the market needs in the process of further liberalisation.

The Government of the Republic of Macedonia adopted the programme for activities for solving the economic-financial conditions in electricity sector<sup>11</sup>, in order to improve the collection, the losses to be decreased and the instruments for efficient and active financial justification of the transactions to be introduced. For monitoring of the implementation of the subject programme, a working group was established with the representatives from the Ministry of Economy, Ministry of Finance, Ministry of Justice, Ministry of Labour and Social Politics, Ministry of

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<sup>10</sup> Priority of the Accession Partnership Chapter 15 –“Fulfil the obligations arising from the Energy Community Treaty as regards the full implementation of the acquis on the internal gas and electricity market and on cross border exchanges in electricity”

<sup>11</sup> Priority of the Accession Partnership Economic criteria – “Step up efforts to safeguard the sustainability of the electricity market, in view of the country's commitments to liberalisation, by eliminating existing distortions due to non-cost-recovery prices and by strengthening the regulatory institutions and the physical infrastructure”.

Transport and Connection, Ministry for Local Self-Government, AD MEPSO, AD ELEM and AD ESM. The Ministry of Economy is obligated every three months to submit to the government for review the financial solving based on data from AD MEPSO, AD ELEM and AD ESM. The first review of AD MEPSO, AD ELEM and AD ESM about financial solving should refer to the period of April-June and the same should be submitted to the Ministry of Economy the first week of July. After that the review will be submitted to the government. On the 31 July, 2007, information about these issues was discussed and established with the conclusion that the Ministry of Economy through the Working Group will coordinate the activities in regards to these issues, and for these issues to be submitted to the government for their Information, in other words to inform government every three months.

### **The Energy Development Strategy for Republic of Macedonia**

The Ministry of Economy has prepared the Project Task for drafting of the **Energy Development Strategy for Republic of Macedonia**. Additionally, public procurement for choosing the consultant company which is going to prepare the mentioned strategy was announced. The strategy will contain direction ideas and advice for the government concerning the energy sector's future development.

With an aim for approximation with the EU Legislation from the European standards for liquid fuels quality, and in accordance with the National Programme for approximation of the national legislation with the EU, in May 2007 the Ministry of Economy adopted **the Rulebook for quality of the liquid fuels**.

With the establishment of the mentioned rulebook, new concepts were introduced regarding the qualitative content of the liquid fuels which are on the Macedonian market as follows: content of petrol and sulphur in the non-leaded petrol, content of sulphur in diesel, olefin, aromatics, oxygen and other liquid fuels qualitative contents.

This rulebook prescribed the border value and other liquid fuels qualitative content which can be put on the domestic market, this is a way of proving the accordance between qualitative content of the fuels and the prescribed border values, in other words establishment of the correlation of the fuels with the requested standards.

With an aim to provide conditions and possibilities to spend or to renovate oil derivate reserves which are not of the same quality as the prescribed EU standards and EU legislation in this rulebook there are transitional provisions. After these prescribed provisions, only oil derivatives which have quality in accordance with the EU standards in this rulebook should be on the domestic market.

### **Electricity prices**

In the accordance with the rulebook on the method and conditions for regulating electricity prices ("Official Gazette of the Republic of Macedonia", no. 95/04), companies for producing, transmission and distribution of electricity, which are regulated, apply in the Energy Regulatory Commission for approving the price and revenue.

### **Privileged tariff for electricity (Feed in tariffs) for electricity produced from renewable energy sources**

In accordance with the rulebook for means and procedure for establishing and approving of using privileged tariffs for purchase of electricity produced by the small hydro power plants. (Official Gazette 16/07), privileged tariffs are for an electricity quantity from the new constructed SHPP with installed capacity from 10.000 kW.

Preferential electricity producers are obligated for a period of 20 years to use these privileged tariffs for which there is an approved decision.

Market operator is obligate to purchase the whole electricity generated from the preferential electricity producers, by privileged tariffs for which energy Regulatory commission adopt Decision for approving the using by this preferential producer.

The main goal of the Privileged tariff is:

- Stimulation of the new investments for using available hydro potential as renewable energy sources

- Conditions for implementation of principle of objectives, undiscriminating and transparency in the procedure for establishing and approving for using these privileged tariffs
- Conditions for protecting and environmental development

The Energy Regulatory Commission in the procedure for establishing the privileged tariffs should have taken into consideration the needs for providing the average annual revenue of SHPP which will provide reimbursement of the investment and operational costs and providing of the suitable capital assumption.

Privileged tariffs are established by the Energy Regulatory Commission and after that they are announced in the Official Gazette of the Republic of Macedonia

Privileged tariffs for electricity selling produced by the SHPP, which obtained status of preferential electricity producers, are:

Table 10: Privileged tariffs

Block	Months quantities of delivered electricity (kWh)	Annual quantities of delivered electricity (kWh)	Privileged tariffs (€-cent/kWh)
I	1 – 85.000	1 – 1.020.000	12,00
II	85.001 – 170.000	1.020.001 - 2.040.000	8,00
III	170.001 – 350.000	2.040.001 – 4.200.000	6,00
IV	350.001 – 700.000	4.200.001 – 8.400.000	5,00
V	over 700.001	over 8.400.001	4,50

Ministry of economy

In accordance with the mentioned rulebook, ERC adopt decision, in which privileged tariffs for electricity share purchases produced by the wind plants (Official Gazette 61/07), ERC adopted a decision that established that privileged tariffs for electricity share purchases produced by the wind plants at 8.9 (€cents/kWh). This privileged rate does not include VAT. ERC can adopt new decision for privileged tariffs only one in the period of tree years.

ERC also prepares the rulebook for the means and procedure for establishing and approving of using the privileged tariffs for electricity purchases produced by the power plants which are using biomass as fuels. This was held for discussion by experts on 21 August, 2007.

### Licenses

The “Rulebook on the conditions, method and procedures for granting, modification and revocation of licenses for performing energy activities” (Official Gazette of the Republic of Macedonia”, no. 47/05) sets down the procedure for granting the license, the subject of the license, monitoring of the compliance of the obligations set out in the licenses by the license holder and record keeping of the issued, amended, suspended, revocation and termination of the licenses for performing energy activities.

The Energy Regulatory Commission issued the following licenses for performing energy activities in the electricity sector:

Table 11: Linences

No.	License holder	Energy Activity	Date of issuing	Duration of the license (years)
1	AD MEPSO	Transmission of electricity	14.11.2005	35
		Operation of the electric power system	14.11.2005	35
		Organization and operation of the electricity market	14.11.2005	35
		Wholesale supply of electricity for tariff customers	14.11.2005	10
2	AD ELEM	Generation of electricity	18.11.2005	35
3	AD ESM	Distribution of electricity	28.11.2005	35

		Operation of the electricity distribution system	28.11.2005	35
		Retail supply of electricity for tariff customers	28.11.2005	10
		Generation of electricity	28.11.2005	35
4	AD TPP NEGOTINO	Generation of electricity	30.11.2005	35
5	MAKHYDROPR OEKT AD	Generation of electricity	15.12.2005	15.12.2005-1.02.2013
6	JП STREZENO - BITOLA	Generation of electricity	14.05.2006	35
7	ATEL AD - SKOPJE	Trade of electricity	15.08.2006	10
8	EFT AD - SKOPJE	Trade of electricity	28.09.2006	10
9	ENKAT LARISA DOO- SKOPJE	Trade of electricity	09.03.2007	10
10	Vesting Electric Skopje	Trade of electricity	25.06.2007	10
11	Verbund	Trade of electricity	25.06.2007	10
12	Kolea	Trade of electricity	12.07.2007	10
13	BALKAN ENERGY COMPANY	Trade of electricity	23.07.2007	10

Source: Ministry of Economy

### Conditions in the Natural Gas Market in the Republic of Macedonia

With the Energy Law ("Official Gazette of the Republic of Macedonia", No. 63/06), preconditions are made for opening a natural gas market in Republic of Macedonia, over regulating the issue according with legal and also consolidate accounts for each energy activity, transport, distribution and supply with natural gas. Also with the Law are established conditions for acquiring a status of eligible customers.

According to this Law, as Directive of EU 2003/55 and Regulation 1775/2005, in the last period many regulations and acts were prepared. In the sector for natural gas prepared and adopted were:

- the "Rulebook on the method and conditions for regulating prices for transport, distribution and supply with natural gas" ("Official Gazette of the Republic of Macedonia", No. 94/05);
- the tariff system for transport of natural gas ("Official Gazette of the Republic of Macedonia", No. 94/05);
- the tariff system for selling natural gas to tariff customers ("Official Gazette of the Republic of Macedonia", No. 94/05)
- The "Rulebook of the conditions, method and procedures for obtaining and ceasing the status of eligible customers of natural gas" ("Official Gazette of the Republic of Macedonia", No. 49/07).

The rulebooks and tariff systems for regulating prices in the natural gas sector are designed on methods based on incentive price regulation which is applied by the price cap method.

The price cap method means establishing a price adjusted to cost fluctuations, and ensuring sufficient revenue to cover justified expenses.

With this regulation to a large extent equal treatment for all energy entities is achieved, access to natural gas transport and distribution assets, eliminate each other subvention, as to ensure transparency and foresee in the price and with the majority security in current and planning working for energy entities and sustainable development in this sector.

The plan is to also adopt a Natural Gas Transmission Grid Code to the end of this year.

According to the Energy Law and the "Rulebook on conditions, method and procedures for granting, modification and revocation of licenses for performing energy activities" (Official Gazette of the Republic of Macedonia", no. 47/05), the Energy Regulatory Commission in the natural gas sector has published many licenses:

- a license for the transmission of natural gas, GA-MA stakeholder –Skopje;
- a license for the operation of natural gas transmission systems, GA-MA stakeholder –Skopje;
- a license for the supply of natural gas for tariff customers connected to the transmission system, Makpetrol, stakeholder-Skopje;
- a license to trade natural gas, Makpetrol, stakeholder-Skopje
- a license to trade natural gas, Makgas DOOEL-Skopje
- a license to trade natural gas, Gas Trade DOOEL – Skopje.

### **Safety in Energy supplying**

On 14 February, 2007 the Ministry of Economy announced an **International public announcement for granting water concession for electricity generation from 60 small hydro power plants**. This announcement was open until 16 March 2007 and in this time period 125 company collected the tender documentation, 62 companies were from the Republic of Macedonia and 63 foreign companies. Potential investors should have submitted their bids within three months, by 14 June this year. On 15 June, 2007 the bids were publicly opened and the commissions made an evaluation of the bids and chose the best bidder for 41 locations. The new International public announcement for granting water concession for electricity generation from 28 small hydro power plants was announced on the 13 September, 2007 and will remain open until 10 January, .2008. Also in the forthcoming period, it is foreseen to announce an international public announcement every six months for granting water concession for electricity generation from small hydro power plants (the total number is around 400)

On the 13 of June 2006 Ministry of Economy announced the **International public announcement for expressing interest for participating in the procedure for prequalification for construction of two hydro power plants on Crna Reka**. Pre-qualification ended on the 12 of October 2006. The Government of the Republic of Macedonia on 19 December adopted the short list suggested by the commission and the qualified companies will be requested to collect the tender documentation before the end of June 2007. The period for collecting the tender documentation was until 7 September, 2007, and until this period five from the six qualified companies collected the tender documentation. The final period for submitting the bids is 7 December, 2007, after that the commission will make an evaluation and choose the best bidder. Construction should be started within two years after the concession agreement will be signed.

On the 6 June, 2007 the Ministry of Economy **published the international public announcement of the international public announcement for expressing interest for taking part in the procedure for prequalification for granting concession for constructing the HPP Boskov Most**. The final date for participating in the procedure for prequalification was 3 September. During this time, 16 companies submitted documentation for expressing interest. Currently, the commission is evaluating the bids and after that there will a short list of the companies which are qualified. These companies will be requested to collect tender documentation soon after.

### **Project AMBO**

Bilateral Protocol for the entrance –exit points between the Republic of Macedonia and the Republic of Albania was signed.

On 31 January 2007 in Skopje, the Republic of Macedonia an inter-ministerial conference was held on which the Tripartite Convention for the AMBO Project was signed.

Assemblies of the Republic of Macedonia on 14 June, 2007 established and announced the Law for the Ratification of the Tripartite Convention regarding the Trans Balkan Oil Pipeline between the Republic of Macedonia, Albania and Bulgaria, signed in Skopje on 31 January 2007. (Official Gazette 74/2007)

In the next period, signing of the Bilateral Protocol for the entrance –exit points between the Republic of Macedonia and the Republic of Bulgaria.

The AMBO Consortium will have to provide financial closing of this project and after that construction should start with a planned end date in three years.

### **Energy Efficiency and Renewable Energy Sources Projects**

The Ministry of Economy on 9 July, .2007 announced the public procurement in accordance with the Law for Public Procurement, for choosing the consultant who will prepare the **Basic Study for the renewable energy sources in the Republic of Macedonia**. When the consultant has prepared the basic study, the Ministry of Economy will prepare and adopt the rulebook on the exploitation of renewable energy resources. With this rulebook the EU directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market will be transposed

The **rulebook for labelling and standard product information of the consumption of energy and other resources by household appliances was established in July 2007**. With this rulebook, the EU Directives like 92/75/EEC 2002/31/EC 96/60/EC 97/17/, 98/11/EC 2002/40/EC, 92/75/EEC 96/89/EC and 94/2/EC will be transposed.

The study for the potential use of wind energy in the Republic of Macedonia is in the phase of preparation. Local partners for the preparation of this study are the Electro Technical Faculty and AD ELEM. In accordance with the time frame, this study should be completed by October 2007. It is expected with this study, the locations in the Republic of Macedonia on which there is enough wind and economical feasibility for construction of the wind power plants to be defined. Based on this information, a public announcement will be published for the construction of the wind power plants.

### **GEF - Macedonia Sustainable Energy Project**

The Republic of Macedonia, represented by the Ministry of Finance and World Bank on the 26 February concluded the Grant Agreement from Global Ecological Funds (GEF) for receiving a grant of 5.500.000 USD for implementation of the GEF Project (Project for Sustainable Energy). Also, the project agreement between MEPSO and World Bank and project agreement between the Macedonian Bank for the support of the development and World Bank are concluded. This grant was effective from 31 august 2007 with the duration of this project to be until April 2011 after which an extension is expected in the following four years.

The grant from GEF will be used for:

- Technical support which will be implemented through the Energy Agency, for which 1.000.000 USD from GEF will be used,
- Financial support for the development and start-up of a utility-based Energy Service Company (ESCO), a service company which tasks will be to help of the public institution to reduce electricity consumption, which is going to be implemented by MEPSO and Toplifikacija-Skopje, by using US\$0.8 million GEF grant
- The introduction of financial mechanisms for the implementation of the project for energy efficiency (EE) and renewable energy sources (RES), which will be financed through the Macedonian Bank of Development Promotion for which the GEF grant of 4.000.000 USD will be used.

The project **Solar Water Heaters** is being implemented in the duration of three years, starting from November 2005 until October 2008 in the amount of 300.000 EUR. The main goal of this project is to significantly improve the administrative and technical conditions for improvement of the usage of solar energy in the Republic of Macedonia. Until this time, several training and seminars were organized for Macedonian producers and

executors of solar thermal systems with an aim for the transfer of the Austrian and Greek experience in this field for their manufacturing quality. There are ongoing preparation activities for establishing the solar test laboratory in the frame of State Office for Hydro Meteorological Affairs. At this time, we are waiting for approval from the German Institution DBU (Deutsche Bundesstiftung Umwelt), who will be the co-financer of this laboratory, for the business plan for this laboratory prepared by the State Office for Hydro Meteorological Affairs.

The Ministry of Economy on 20 July .2007 put into practice the ***stimulating measure subvention for the first 500 buyers of the thermal solar collector system which has been accordingly installed in their homes.*** For implementation of this subvention 9.000.000 Denar was provided from the budget of the Republic of Macedonia, and for the first 500 buyers 8.000.000 Denar was given. With these measures the government stimulated more than 500 households to install solar collectors and to increase the use of solar energy in the following period. All of these measures will contribute to higher energy efficiency and will create positive effects for environmental.

### 3.1.7 Tourism and Catering Industry

The tourism and catering industry is a significant business branch for the development of economy in the Republic of Macedonia, for share in the GDP, the positive growth of foreign exchange flow and for the overall employment considered through:

**Table 12: The Tourist Turnover in the Republic of Macedonia**

Tourist turnover					
	2003	2004	2005	2006	2006-2005%
<b>1. Number of tourists</b>					
Total	483 151	465 015	509 706	499 473	98.0
Local	325 459	299 709	312 490	297 116	95
Foreign	157 692	165 306	197 216	202 357	102
Share in total number in %					
Total	100.0	100.0	100.0	100	
Local	67.4	64.4	61.3	59.5	
Foreign	32.6	35.6	38.7	40.5	
<b>2. Number of overnight</b>					
Total	2 006 867	1 865 434	1 970 041	1 917 395	97.3
Local	1 660 667	1 504 845	1 527 053	1 474 550	96.5
Foreign	346 200	360 589	442 988	442 845	99.9
Share in total number in %					
Total	100.0	100.0	100.0	100	
Local	82.7	80.7	77.5	76.9	
Foreign	17.3	19.3	22.5	23.1	

Source: State Statistics Office

It can be noticed from the statistic data provided that the total turnover in tourism is increasingly growing with the exception of the years 2004 and 2006, where there was a slight decline. The growth index in the total turnover, expressed in percentage for 2006 in comparison to 2005 marks a slight decline by 2% in the local turnover by 5% while there was an increase in the foreign turnover by 2%. The total overnights also marked a slight decline of 3, 5%. The number of foreign tourists and overnights continuously year by year indicates a permanent growth of approximately 3% with a share in the total figures and on contrary to it we register an ongoing decline in the domestic number of tourists and overnights of about 3% every year.



Table 13 : Foreign tourists

	2003	2004	2005	2006	Index 05/03	Index 06/05
EU countries	67 514	69 498	79 897	85 282	118.3	106.7
Neighbouring countries	53 560	56 379	73 477	71 817	137.2	97.7
Other EU countries	21 787	20 635	27 953	28 250	128.3	101.1
Other world	14 831	18 794	15 889	17 008	107.1	107.0
<b>TOTAL</b>	<b>157 692</b>	<b>165 306</b>	<b>197 216</b>	<b>202 357</b>	<b>125.0</b>	<b>102.0</b>

Source: State Statistics Office

Table 14: Foreign tourists overnights

	2003	2004	2005	2006	Index 05/03	Index 06/05
EU countries	149 071	152 034	190 200	187 773	127.6	98.7
Neighbouring countries	111 666	114 794	154 590	150 911	138.4	97.6
Other EU countries	36 926	42 562	54 114	62 627	146.5	115.7
Other world	48 537	51 199	44 084	41 534	90.8	94.2
<b>TOTAL</b>	<b>346 200</b>	<b>360 589</b>	<b>442 988</b>	<b>442 845</b>	<b>128.0</b>	<b>99.9</b>

Source: State Statistics Office

The Republic of Macedonia as an interesting tourist market is acceptable to a large number of tourists who arrive from various regions worldwide. The data provided indicate that the greatest number of tourists arrive from EU countries (included are the countries that were admitted to EU later in 2004), and from the neighbouring countries. Every year the number of tourists is growing. The highest growth of 19,3% was registered in 2005, whereas this growth is the highest by structure with the tourists arriving and who overnight from the neighbouring countries and EU, and contrary to them we register a great drop in other countries worldwide of 5,8%. It can be said that the highest potential tourist market of the Republic of Macedonia is the European and the neighbouring countries.

Table 15: Number of employees/total employees for economy in percentage

	2003	2004	2005	2006	2010 П
<b>55.hotels and restaurants</b>	3.0	3.0	3.0	3.1	4.0
<b>66.3 activity of travel agencies and tour operators</b>	0.1	0.1	0.2	0.2	0.4

Source: State Statistics Office

Table 16: Foreign currency flow in \$

	2003	2004	2005	2006	2010 П
<b>Net Tourism</b>	<b>8.730.000</b>	<b>17.340.000</b>	<b>24.250.000</b>	<b>58.450.000</b>	120.000.000
<b>Inflow</b>	56.680.000	71.810.000	83.900.000	129.170.000	220.000.000
<b>Outflow</b>	47.950.000	54.470.000	59.650.000	70.720.000	100.000.000

Source: NBRM

Over the last three years a positive balance in the payment operations has been realized through tourism and catering industry and with that the tourism represents a significant export branch in the improvement of foreign current flow in the Republic of Macedonia. It registers a significant growth every year. In 2006 it registered a growth of 53, 9% in the total foreign exchange flow whereas 141% in the net realized flow.

The projections are that the earned foreign exchange flow in 2010 will reach the percentage of 70% whereas the net revenue will be increased by 105% and the total employment in hotel industry will increase by 33%, in the travelling agencies by 100% in case that the trend of increase in the average annual growth of 20% continues for all indicators and of maintaining a politics of sustainable tourism development.

Table 17: Investments in tourism in \$

	2002	2003	2004	2005	2006
<b>Hotels and restaurants</b>	1.646.000	7.200.000	6.611.000	5.262.000	6.319.000

Source: NBRM

After the military crisis and the consequences arising from it in the destruction of the Republic of Macedonia image in 2001 and 2002, small investments are noticeable in tourism. Over the last few years the total investments has been improving in this area with the highest investments in 2003 of 7. 200. 000 U.S.A dollars. The total investments for these five years were US\$ 27.039.646. Those were investments primarily in the construction of hotels, family hotels and private apartment, mostly in rehabilitation and modernisation of the existing hotels and apartments. Over the last five years, a large number off small and family hotels have been constructed of the type of 3 and 4 star hotels by standards that confirm the increased number of growth of small enterprises. This way the quality standards for accommodation are upgraded both in hotels and restaurants. New regulations with respect to minimum technical conditions have been adopted including a new regulation harmonised with the world standards for categorisation of the catering industry facilities. A large number of private rooms and apartments have been constructed mostly in the rural regions with regard to the village and alternative tourism respecting all the necessary quality standards.

In 2004 two new laws were adopted which regulate these activities such as the Law on Tourist Activity (Official Gazette of the Republic of Macedonia No. 62/2004) and the Law on Catering Industry (Official Gazette of the Republic of Macedonia No. 62/2004), These two laws were completely harmonised with the European legislation (EU Directive 90/314) in technical cooperation with international experts from the EU and France. Based on the Law on Catering and the Law on Tourism, the Ministry of Economy prepares the regulations and acts arising from them such as the sub-legal act; Regulations on Minimum Technical Conditions of Facilities with respect to doing the tourist business, Regulation on Conditions for Categorisation of Facilities with regard to performing a catering industry business and more regulations on forms that are anticipated for maintaining of records in accordance with these laws. In 2006, the process started of adopting the 2006 – 2012 medium - term plan, which will strengthen the basic parameters and action plans with respect to tourism and catering industry development in 20 years. This was adopted by the Government of the Republic of Macedonia in November.

The Republic of Macedonia defines, through the Annual Macroeconomic Development Programme and the Annual Tourism Development Programme, and in compliance with the changes in the world tourist market, the following strategic tasks in terms of tourism and catering industry development:

- Increase in the accommodation capacities and tourist infrastructure,
- Improvement in service quality,
- Incremented promotion of tourism as a recognizable tourist destination,
- Establishment of a National Tourist Organization,
- Implementation of National Tourism Development Strategy,
- Principles of sustainable development,
- Protection of environment and tourist surrounding
- Improvement in the condition of the selected tourist locations,
- Development of new types of tourist products:
  - a) development of rural/village tourism

- b) development of cultural tourism
- c) development of health tourism
- d) development of conference tourism

## **3.2 Financial sector**

### **3.2.1 Banking System**

#### **Background**

As of 30th June 2007 inclusive, the banking system in the Republic of Macedonia was comprised of 19 banks and 12 savings houses. Out of these, 16 banks are licensed to carry out financial activities in the country and abroad, while the remaining 3 banks are licensed to carry out financial activities in the country only. The banks are of large significance in the banking system in the Republic of Macedonia, while the role of the savings houses is marginalised.

The share of private capital in the total equity of the banking system is 93.1%, i.e. 98.4%, should Macedonian Bank for Development Promotion be excluded from the analysis, which is a fully state-owned bank. Regarding the shareholding structure of the banks, there is an upward trend recorded at the share of financial institutions, simultaneously evidence of a downward trend of the share of the non-financial legal entities in the total equity of the banking system. On 30th June 2007, non-financial legal entities possessed 31.2% of the ordinary shares of the banks, while the share of the financial institutions accounted for 50.2%.

In the course of 2006 and the first half of 2007, an upward trend of the share of foreign capital in the total capital of the banks in the Republic of Macedonia continued. Thus, on 30th June 2007, the share of foreign capital in the total equity of the banking system in the Republic of Macedonia accounted for 63%, an increase by 6.9 percentage points compared to the end of 2006. Nine out of the total number of banks are dominantly owned by foreign shareholders.

Intensive growth of the volume of banks' activities in the course of 2007 has had a positive impact over the trends in the Macedonian economy. This growth was expressed through the increase in the deposit potential of the banks, as well as through the further increase of the credit support to the non-financial entities. An increased confidence in the banking system, based on its stability that lasted for several years, resulted in continuous increase of the deposit base. Thus, the deposit potential of the banks grew by 22.2% in the first half of 2007 alone. Increased credit activity of the banks was a basis for the deepening in the financial intermediation, contributing to strengthening of the banks' role in the overall economic activity. The level of financial intermediation, expressed as a ratio of total assets, gross credits and total deposits to non-financial entities to GDP accounted for 65.6%, 34.6% and 47.8%, respectively.

The value of total assets at the banking system level experienced an upward trend and, on 30th June 2007, it amounted to Denar 199,065 million, a surge of 41.7% compared to the end of 2005. This increase was mostly due to the permanent intensification of the credit activity of the banks and their enhancing interest in investing in short-term securities. The positive side of this process is that the increase in the banks' credit activity is accompanied with risk reduction of the extended credits, i.e. the share of the credits classified in B, D and E risk categories accounted for 6.43% on 30th June 2007, a drop by 4.44 percentage points in relation to the end of 2005. Risk indicators, expressed as a ratio between potential loss and total exposure, constantly improves, which amounted to 5.9% in the first half of 2007, compared to the end of 2005, is a drop by 2.5 percentage points. This shows that the banks in Macedonia, in conditions of increased credit activity, are exposed to smaller credit risk, by thorough constant improvement of the quality of their credit exposure.

Liquidity level, observed from the point of view of the sources of funds, availability of liquid and high-liquid assets and maturity concurrence of assets and liabilities, points to a low level of liquidity risk to which banks are exposed.

Liquid assets of the banks in the first half of 2007, compared to 2006, surged by 19.3%, due to the investments in Central Bank bills and Treasury bills. During this period, almost 52% of the liquid assets of the banks were

highly liquid, due to the reduction of credit with the foreign banks and an increase in the investments in long-term securities and Central Bank bills. Such an increase in the high-liquid assets led to an increase in the average monthly coverage of the total deposits, which, on 30<sup>th</sup> June 2007, accounted for 58.3%, and a surge of the average monthly share of high-liquid assets in the total assets by 2.4 percentage points in relation to 2006.

Significant presence of the foreign currency component at the banks' balance sheets is one of the features of the banking system in the Republic of Macedonia in this period as well. On 30<sup>th</sup> June 2007, 53.8% of the total assets were assets containing a foreign currency component, while the share of foreign currency liabilities accounted for 47.8%. Despite the high share of the foreign currency components in the total assets and liabilities, as a result of the Denar exchange rate stability and the efficient exchange rate risk management within the prudent limits stipulated by the National Bank, the exchange rate risk is at a low level.

Permanent increase in banks' activities in the past period, accompanied by reallocation of low-interest bearing to high-interest bearing assets, has a direct impact on improvement of the efficiency and the profitability of the banks in the Republic of Macedonia. In the first half of 2007, profit was observed in the amount of EUR 36.3 million, which, compared to the first half of 2006, was an increase by 148%. Positive trends are also evident at the profitability indicators, such as average rate of return on assets and average rate of return on own resources. At the banking system level, these indicators accounted for 2.4% and 18.3%, respectively.

## **Legal Framework**

### **1. Banking Law**

In June 2006, a new Law on Banking was adopted, based on the principles of efficient bank supervision of the Basel Committee. At the same time, the Law on Banking transposes Directive 2006/48/EC, i.e. it made harmonisation in the segments where national legislation differed from the directive. The new law created a real basis for strengthening of the competition in the banking system, through liberalisation of this segment of the financial system. The new Law on Banking for the first time allows banks to carry out financial services in the Republic of Macedonia through the opening of branch offices, whereby they can carry out all activities licensed by the competent authority in the host country. This means that foreign banks, by investing a capital of EUR 2 million and through a simplified licensing procedure, can establish branch offices in Macedonia. More favourable treatment for establishment of a branch office would be given to the banks from the EU Member States, but these provisions would enter into force from the day of accession of the Republic of Macedonia to the European Union, meaning they have a delayed effect. A significant change in the new Law on Banking is the increase of the capital consensus for establishment of a bank from EUR 3.5 million to EUR 5 million, thus accepting the European regulation. There is full harmonisation with the European Directives also in the part of bank exposure, whereby banks in the Republic of Macedonia are subject to the same investment restrictions as the EU banks. By strengthening the fit and proper criteria, being of exceptional significance since banks operate and manage third party's assets, harmonisation was made with the Directive 2006/48/EC, according to which the competent body would not give approval for members of bodies if the members have no satisfactory reputation.

The new Law on Banking incorporates Directive 2006/48/EC and the Basel principles and practices of prudent operations of banks regulate the basic supervisory standards such as: maintaining the required level of own resources and capital adequacy, written methodologies for capital management, management of the credit, liquidity and currency risk and for other types of risks faced by banks, such as country risk and operating risk, with an obligation for the banks to manage the risks appropriately. This approach strengthens the market discipline of banks and risk management is connected with the type and the volume of activities of each bank, thus making an approximation to the New Basel Capital Accord.

The new law organizes a system measures that could be undertaken by the supervision, by the severity of omissions and irregularities, but even more significant is the introduction of measures aimed at temporary prevention of further deterioration of the bank situation, above all, to the end of protecting its depositors.

The preparation of the bylaws to the Law on Banking is underway, part of which were submitted by the National Bank, and part shall be adopted by March 2008.

## 2. Payment Operations Law

The new Law on Payment Operations that was adopted in September 2007, incorporates a new chapter on e-money by transposing the Directive 2000/46/EC for taking up, the pursuit of and the prudential supervision of the business of electronic money institutions, as well as Directive 2006/48/EC for taking up and the pursuit of the business of credit institutions.

## 3. Law on Consumer Protection in Consumer Credit Agreements

In May 2007, the Law on Consumer Protection in Consumer Credit Agreements was adopted, fully harmonising with the *acquis*, i.e. implementing the Directive 87/102/EEC amended and modified with Directives 90/88/EEC and 98/7/EC.

This law defines overall costs of credit and the annual rate of total costs, thus fully harmonising with the EU directives. This law protects the rights and the interests of the users of consumer and residential credit, as it is regulated in the EU.

The National Bank adopted the bylaws to this law which refer to the banks, as follows:

- Decision on the methodology for calculating the annual total cost rate;
- Decision on the manner and the procedure for supervision over banks and savings houses from the aspect of protection of the rights of consumers when using consumer credits.

## Supervision

In parallel with the progress made in the area of regulation framework, there are intensive activities for the implementation of the Bank Supervision Development Plan. The Bank Supervision Development Plan envisages a transition from compliance-based supervision to risk-based supervision and risk management. The goal of the plan is aimed at implementation of the second pillar of the New Capital Accord (Basel II). The Bank Supervision Development Plan was adopted by the National Bank of the Republic of Macedonia (NBRM) in January 2006 and its implementation began in May 2006, when the new consultant hired by the IMF started working.

Methodologies and supervisory procedures adopted by the Management Committee were subject to test in field supervisory controls of one large and two medium-size banks. A list of indicators was also adopted as an early warning signal for the banks.

Activities regarding the implementation of the Supervision Development Plan will continue in the following period. In addition to strengthening of the capacity of banking supervision, NBRM has started developing the concept of analysis of financial stability, whereby in mid-2007 the National Bank published the first report on the financial stability.

## Weaknesses in the Banking System

- High market concentration

According to all criteria to measure the market concentration, such as the Herfindal Index, CP3 and CP5, the banking system in the Republic of Macedonia is still highly concentrated. The Herfindahl Index, regarding the measuring of the gross credits to enterprises and deposits of enterprises, shows a high, but acceptable concentration level. However, the value of Herfindahl Index, regarding the measuring of credit to citizens and deposits of citizens, is above the acceptable concentration level. On 30<sup>th</sup> June 2007, the three largest banks owned 65.9% of the total banking assets, extended 69.9% of the total gross credit and possessed 71.3% of the total deposit base at banking system level.

- Low level of financial intermediation

Although the financial intermediation of banks continues to grow, compared to European Union indicators, it is still very low.

Table 18: Banking system indicators

Indicators (%)	Macedonia	EY-25
Total assets/GDP	65,6	303,9
Total deposits/GDP	34,6	125,9
Gross credits/GDP	47,8	103,7

- High interest margin

Despite the trend of narrowing the interest margin, it is still too high. The interest margin and Denar credit and deposits in the first half of 2007 declined by 0.8 percentage points, a result of the declined weighted interest rates on debit balance, but also of the growth of the interest rates on credit balance. On 30<sup>th</sup> June, 2007, the interest margin between Denar credit and deposits was 5.4 percentage points.

- Unavailable credit for small- and medium-size enterprises.

Precisely this category of enterprises which needs bank credit the most, has limited access to credit. Since SMEs cannot directly appear on the financial market through an issue of debentures, they must rely on credit.

### **Objectives**

1. Strengthening the stability of the banking system. Activities to be undertaken to the end of achieving this objective ARE THE FOLLOWING:

- harmonisation with the new Law on Banking,
- Implementation of the Capital Accord Basel II (the introduction of internal systems for risk management that would continuously assess the risk exposure of banks establishes the bases for stable and safe banking system in accordance with BPES).
- implementation of the risk-oriented supervision plan,
- Improvement of the corporate governance of banks and increasing of the efficiency in their operations (the new legal regulations would improve the bank corporate governance thus leading to greater efficiency in the operations). Strengthening of the supervisory standards and criteria for bank shareholder would pave the way for high-quality banks that would be able to offer higher-quality and cheaper bank products and would prevent entry of suspicious capital in the banking system),
- implementation of the measures envisaged in the new Law on Banking (the National Bank can undertake the following measures: requirement from the bank to prepare and implement capitalization plan, the National Bank to sell the bank shares of shareholders that acquired them illegally and sale of the bank shares in conditions of administration).
- establishment of a private credit bureau that would enable easier access by client to credit on one hand, as well as efficient management with the credit risk on the other.

2. Strengthening the competition. Realisation of this objective is envisaged through the implementation of the following activities:

- The application of the provision of the new Law on Banking allowing foreign banks to perform financial activities in the Republic of Macedonia by opening branch offices is a step leading to liberalisation on the financial market, as well as strengthening of the competition.
- Introduction of new financial products and institutions. Poor financial structure on one hand and the increasing need for new financial instruments on the other create a real basis for the establishment of new financial institutions.

3. Verification of the sector. Especially large contribution for the development of SMEs, above all, would be given by the establishment of non-banking financial institution. It would contribute to the creation of new types of financial services in the country which is an opportunity for the Macedonian enterprises to use financial services that best meet their needs, and under favourable conditions. The competitiveness of enterprises would be increased if they use new manners of financing and liquidity management, especially factoring, forfeiting and financial leasing.

### **3.2.2 Capital market**

Continuous growth and development remain to be the main feature of the capital market in the Republic of Macedonia.

In the period of January -June 2007, the turnover noticed in trading on the Stock Exchange (comprising the trading in shares and bonds) amounted to Denar 14,3 billion or EUR 231.8 million, which compared to the same period in 2006 grew by 217.51%. Turnover in trading in shares amounted to Denar 13.6 billion or EUR 219.8

million and compared to the one in the first half of 2006 it grew by 350.68%, while the turnover in trading in g bonds issued by the Republic of Macedonia amounted to Denar 749.4 million or EUR 12.1 million and compared to the turnover in the first half of 2006 it declined by 50.17%.

Despite the fact that the turnover in traditional trading on the Stock Exchange on 30<sup>th</sup> June 2007 grew by 217.51%, compared to the one on 30<sup>th</sup> June 2006, the total turnover on the Macedonian Stock Exchange on 30<sup>th</sup> June 2007 amounted to Denar 19.9 billion or EUR 322.1 million, and compared to the one on 30<sup>th</sup> June 2006 declined by 9.58%.

Such decline of the total turnover on the Stock Exchange on 30<sup>th</sup> June 2007 compared to one on 30<sup>th</sup> June 2006 was mainly due to the fact that the value of the trading through the block transactions in 2006 was very high due to the sale of the government shares in 'Elektrostopanstvo Macedonia', i.e. in the first half of 2006 the trading on the Macedonian Stock Exchange was untypical for comparison.

On 30<sup>th</sup> June 2007 the total market capitalisation of the securities on the Macedonian Stock Exchange amounted to Denar 295.4 billion or EUR 4.76 billion being 95.67% of GDP in 2006 total market capitalisation of the Macedonian Stock Exchange On 30<sup>th</sup> June 2007 compared to the 30<sup>th</sup> June 2006 grew by 254.04%.

On 30<sup>th</sup> June 2007, the MSEI-10 amounted to Denar 6,917.51 or EUR 110 and compared to the one in the first half of 2007 it grew by 137.58%.

In the first half of 2007, the total turnover on the Over-the- Counter Market in the Republic of Macedonia amounted to Denar 501.2 million regarding the Treasury bills and Denar 621.8 million regarding the Government Bonds or around Denar 1.1 billion.

### **Regulation and Supervision**

Pursuant to the Securities Law adopted in 2005, the Securities and Exchange Commission adopted 58 rulebooks in 2006 and the first half of 2007.

At the beginning of 2007, the 2007-2012 Strategy on Implementation of Securities Law was prepared. The strategy envisages strengthening of both, the role and the functions of the commission in the mentioned period, identifying the areas, mostly supposed to be source for violating the securities operation regulations. The purpose of the strategy is to decrease the chances for price manipulations and to strengthen the supervisory function of the commission.

In the course of 2007, the Securities and Exchange Commission organised the first training for investment advisors, which was successfully completed by 79 participants. These participants will meet the need for engaging investment advisors in the first investment fund management companies registered in the course of 2007 and the pension fund management companies.

In March 2007, the Law on Modifications and Amendments to the Law on Takeover of Joint Stock Companies thus harmonising with the Directive 2004/25/ on takeover bids and meeting the need to increase the scope of the law. In fact, according to the new legal solution scope of the Law on Takeover of Joint Stock Companies was extended, from relatively small circle of listed companies on the Stock Exchange to all joint stock companies, which pursuant to the Securities Law have specific obligations to reporting. The amendments to the Law on Takeover of Joint Stock Companies introduced an additional provision on determination of the minimal price at which the takeover can be carried out, i.e. which the bidders can offer in the purchase bid, and providing the possibility that if the bidder in the procedure of the takeover of joint stock companies purchases at least 95% of the voting shares, he also has the right to purchase the shares of the other shareholders, who did not accept the purchase bid, whereby the purchase has to be carried out according to the same conditions pertaining to the purchase bid. At the same time, the shareholder acquiring at least 95% of the voting shares in the joint stock company to which the takeover bid refers, he is also obliged to purchase the shares of the other shareholders who did not accept the takeover bid, should these shareholders submit a request for forced purchase to the Central Depositary. These provisions are fully harmonised with the EU Directive 2004/25/EC, regarding the cases of forced purchase and forced sale.

In the course of 2007, the Securities and Exchange Commission extended approval for the operations to the first two investment fund management companies, which established the first three open-end investment funds in the Republic of Macedonia. The establishment of the first investment funds in the Republic of Macedonia is expected to influence even more the movements on the capital market and the increase of the interest by the domestic and foreign investors to invest in securities.

On 26th June, 2006, the Macedonian Stock Exchange also adopted the Code on Corporate Governance, which was applied from January 2007 on a voluntary basis except for the companies that are listed on the so-called super-listing, for which the application of this code is mandatory. The code should bring the best corporate governance practices closer to the companies and the shareholders, focusing thereby on impartial (equal) treatment of the shareholders, information disclosure, integrity and the responsibility of managers and directors, as well as other aspects of the sound corporate governance, that would increase the confidence of the investors to invest in securities on the Macedonian market.

### **Envisaged activities and measures**

Main objectives of the future reforms on the capital market in the Republic of Macedonia are the following: further increase of the confidence of the investors to invest in securities on the Macedonian capital market and increase of the interest of the domestic and foreign entities to invest in securities in the Republic of Macedonia as well as further harmonisation of the national regulation with the European acquis and the IOSCO principles.

Therefore, it is envisaged to adopt new Investment Fund Law by the end of 2007, which will significantly improve the regulation on establishment and operations of the investment funds, while the foreign investment fund management companies will be enabled to invest through their subsidiaries in securities on the territory of the Republic of Macedonia. At the same time, in order to increase the confidence of the investors to invest in securities on the capital market in the Republic of Macedonia, it is envisaged to prepare regulation on establishment of guarantee fund by the end of 2008, that will serve for the possible indemnification to the investors in case of a failure to settle the stock exchange transactions due to the inadequate operations of persons who are direct or indirect participants on the capital market.

The Law on Financial Collateral is expected to be adopted by the end of 2008, implementing Directive 2002/47/EC.

### **3.2.3 Reforms of the Pension Insurance System**

**Introduction of voluntary fully funded pension insurance** denotes rounding up of the reform process of the pension system in the Republic of Macedonia, for which it is necessary to adopt a separate law on voluntary fully funded pension insurance.

The primary aim of the voluntary fully funded pension insurance in the Republic of Macedonia is:

- to ensure a higher income following the retirement of the beneficiaries who are already insured in the one-pillar or two-pillar pension system (mandatory pension and disability insurance), who want and are in a position to allocate additional funds in order to ensure higher material security or maintain a higher standard of living following the retirement;
- Providing a pension to the individuals who are not included in the mandatory pension insurance for them personally or from other people. This includes long-term unemployed individuals, persons employed in projects or foreign missions, spouses who are not employed, and other persons regardless whether they are employed or unemployed;
- Providing the preconditions for establishing professional pension schemes in the process of harmonisation of the social security system in Macedonia with the system of the European Union.

The new companies for managing of pension funds which have been established with this proposed law shall also constitute an encouragement for the further development of the fully funded pension insurance in its entirety, through increased competition, providing more choices to the citizens, new services to the citizens and an opportunity for decreasing the expenses for fully funded pension insurance.



The introduction of the voluntary fully funded pension insurance is expected to have a significant influence on the economy as a whole by increasing the savings of the population, increasing the investment power and encouraging the development and extending the capital market, through investing in the assets of the capital funds, encouraging the demand of new instruments and new financial services, and so on.

The regulation of the voluntary pension insurance establishes a legal framework for organising professional pension schemes and harmonising with the European trends. That enables the acceptance of the reasons from the European Parliament directive in this sphere, in which it is stated that because the social security systems are under constantly increasing pressure, the professional pensions will play a greater role in terms of supplementing in the future. Due to these reasons, professional pensions should be developed without questioning the importance of the social security pension systems in terms of safe, sustainable and effective social security, which should in turn guarantee decent life standard when the beneficiaries reach old age, and therefore should be incorporated in the essence of the goals for strengthening the European social model.

### **Harmonisation of the national legislation in the area of pension and disability insurance with the EU legislation**

The implementation of the goals of this strategic document is expected to lead to harmonisation of the legislation with the EU regulations pertaining to social security.

### **Modifications and amendments to the Law on Mandatory Fully Funded Pension Insurance:**

The pension system is considered on a long-term, and therefore the law stipulates that the capital market is to be monitored in close correlation with the pension sector, and to determine the further policy based on those economic factors as to whether conditions have been created for opening the market for the entry of new companies for managing of pension funds. In order to decrease the expenses and increase the expected pensions, the competition in this segment needs to be increased to a higher level. Due to the abovementioned it has been stated that it is necessary to regulate the method of issuing permits to new companies that will manage the pension funds, in addition to the existing two, selected at a public tender. In order to protect the interest of the members of the pension funds, the expenses for fully funded pension insurance are being monitored, whereas the modification and amendment of the provisions in this context are aimed at the increase of the competition. The creation of the possibility for other companies to obtain permits, in addition to the domestic founders, boosts the entry of foreign investors as founders of new companies that will manage the pension funds. Furthermore, considering the fact that the reform is currently at initial phase of implementation, a need has been imposed for further definition, modification and amendment of certain provisions of the Law on Mandatory Fully Funded Pension Insurance that shall enable successful implementation of the fully funded pension insurance, such as: fine-tuning of the control procedure, the procedure for selection of a mediator for conducting securities services, the transfer of the members from one pension fund to another, as well as the method of collection of the transfer fee, the maximum limit of the contribution fee that is collected by the company and bears an impact on the future pensions of the members, ensuring higher transparency and fair and impartial public information.

### **3.2.4 Insurance**

The insurance market in the Republic of Macedonia shows a continuous upward and developing trend, regarding the increase in the number of active entities, as well as regarding the deepening of the quality of insurance products and the distribution channels.

Compared to 31<sup>st</sup> December 2006, an additional two insurance companies were licensed to carry out insurance activities in the first half of 2007, so there were 12 insurance companies on the market in the Republic of Macedonia. One of them will carry out life insurance activities while the other will operate in the non-life insurance area. Both companies are established by foreign insurance companies with founding capital amounting to EUR 750,000 in Denar equivalent. Taking into account the last changes, the total nominal value of the equity of the insurance companies amounted to EUR 50,707 thousand. Regarding the ownership structure foreign legal entities are dominant accounting for 67.4%, while the state capital accounts for 8.2%. Foreign capital is dominant in 10 insurance companies, while 6 companies are fully owned by foreign legal entities. In the second half of 2007, one more insurance brokerage company was licensed to carry out insurance brokerage

activities. This company is established by a foreign insurance brokerage company with founding capital amounting to EUR 50,000 in Denar equivalent. In line with the changes, in this area, six insurance brokerage companies operate on the insurance market with total capital amounting to EUR 467,000, 48% out of which belongs to natural persons and 52% to legal entities. Foreign capital accounts for 53.42% in the ownership structure.

As of 31<sup>st</sup> December 2006, total assets of the insurance companies amounted to Denar 14,608,131,987, being an annual increase by 7.3%.

Gross policy premium under the group of non-life insurance amounted to Denar 2,691,627 thousand in the first half of 2007 and compared to the same period last year grew by 7.3% (second quarter 2006: Denar 2,509,000 thousand). The share of the policy premium motor Toll insurance is still dominant in the total gross policy premium accounting for 53%. Another noticeable fact is that over half of the total amount of the gross policy premium in this insurance class belongs to two insurance companies.

Gross policy premium under the life insurance group, amounted to Denar 95,767,000 thousand in the first half of 2007 and compared to the same period last year it grew by 22% (second quarter 2006, Denar 78,500,000 thousand).

In the first half of 2007, the structure and the volume of the insurance brokerage activities amounted to Denar 44,052,974 thousand as a premium and Denar 4,273,063 thousand as a commission. These numbers compared to the same period last year grew by 70.7% regarding the premium and by 62.8% regarding the commission. Two insurance brokerage companies have a dominant position on the market.

The main indicator for the stability of the insurance industry is the solvency of the insurance companies. At the moment, the insurance companies on the market in the Republic of Macedonia are solvent.

Pursuant to the modifications and amendments to the Insurance Supervision Law adopted in June 2007, the insurance companies are obliged to maintain significantly higher amounts of guarantee fund while the insurance brokerage companies are obliged to maintain the equity value in the amount of at least 4% of the insurance premium under all insurance agreements in which they acted as mediators. Thereby, this law provides for the harmonisation to be performed in one transitional period so as not to influence the quality, fulfilling the obligations towards the insured persons on a regular basis.

The Ministry of Finance, as the body responsible for carrying out insurance supervision, regularly analyses the data the entities on the insurance market submit pursuant to the law and undertakes measures so as to protect the interests of the insured persons. Pursuant to the Draft Law in the course of 2007, the competences for carrying out insurance supervision should be shifted to the new Insurance Supervision Agency. This agency will be established as autonomous and independent regulatory body, with public authorisations the objective of which is legal and efficient operation of the insurance market so as to protect the rights of insurance policy holders. The Insurance Supervision Agency is established by the Parliament of the Republic of Macedonia<sup>12</sup> as a separate legal entity having its own statute and other legal acts. The agency is directly responsible to the Parliament of the Republic of Macedonia for its operations

The agency will be financed from the fees by the entities on the insurance market, which will be supervised by the agency.

Pursuant to the law, the agency is obliged to insure transparency in the operations, as well as adequate protection of confidential data.

The commenced reforms in the insurance system will contribute to greater efficiency and effectiveness of the insurance supervision, as well as better management within entities on the insurance market, promotion of the

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<sup>12</sup> Priority of the Accession Partnership Chapter 9 Financial services- "Ensure the independent supervisory authority for the insurance sector becomes operational and is properly staffed."

development of the insurance market in the Republic of Macedonia, greater quality of insurance services and above all greater protection of the rights of the insured persons.

### 3.3 Labour Market

According to the data obtained from the Labour Force Survey (LFS) conducted by the State Statistical Office, the participation (activity) rate and the employment rate is constantly increasing in the population aged 15 to 64 years of age, whereas the unemployment rate is declining.

Table 19: Labour market developments

Year	Participation Rate	Employment Rate	Unemployment Rate
2004	52.2	32.8	37.2
2005	54.1	33.9	37.3
2006	55.1	35.2	36.0
2 <sup>nd</sup> quarter of 2007	55.7	36.2	35.0

In order to increase the flexibility of the labour market, the Law on Agencies for Temporary Employment was adopted in 2006, and up until the present date 19 Agencies for temporary employment have been registered. The law has two aims:

- to improve the flexibility of the labour market, thus providing an opportunity for the employers to easily adapt the number of employees with their financial capabilities; and
- to replace the deed contracts, which actually did not constitute employment contracts, and thereby improves the protection of the employees.

For the purposes of promotion of the policy creation process at the labour market, the Employment Agency has incorporated the skill needs research and analysis of the labour market as part of its regular activities. The first National Report on the Skill Needs Analysis of the Labour Market in the Republic of Macedonia was published in June 2007.

In order to attain the goals set in the National Employment Strategy 2010 and the National Action Plan for Employment 2006-2008, which the government adopted in December 2006, an Operational Active Plan on Active Employment Measures for 2007 has been adopted, for the purposes of integrating the most vulnerable categories of unemployed persons in the labour market<sup>13</sup>.

According to the data of the Employment Agency of the Republic of Macedonia, 361.840 persons were registered as unemployed in August 2007, out of which 76001 individuals, stated that they register as unemployed solely for the purposes of exercising the right to health-care insurance. As it is foreseen in the National Employment Strategy 2010, for the purposes of more-efficient performance of the functions of the Employment Agency of the Republic of Macedonia, the Ministry of Labour and Social Policy and the Ministry of Health proposed modifications to be made to the Law on Employment and Insurance in the Event of Unemployment and to the Law on Health-care Insurance in order to discontinue the relation between the exercise of the right to health-care insurance of the unemployed persons and the Employment Agency of the Republic of Macedonia.

#### Modifications of the Law on Pension and Disability Insurance

With reference to the first goal - **defining the disability in accordance with the European regulation** is proposed to redefine the disability, which in the neighbouring countries of the Republic of Macedonia and in the EU legislation defined as general incapacity for work or vocational incapacity for work. Such definition of disability provides for higher flexibility of the labour market, and leads to redefinition of the right on the basis of vocational incapacity for work. Such definition is more adequate for the utilisation of the vocational capacity and mobility of

<sup>13</sup>Priority of the Accession Partnership Chapter 19 Employment and social policies- " Take further efforts improve the situation of persons with disabilities."

the labour market, and is reflected in the assets necessary for the ensuring of the rights arising from pension and disability insurance.

With reference to the goal, the **modification of the pension harmonisation model**, the proposal is that the harmonisation of the pensions to be conducted according to the following formula: 50% from the increase of the salaries in the Republic of Macedonia and 50% from the increase of the life expenses semi-annually. In this manner the harmonisation of the pensions would be more realistic, whereas the pension beneficiaries would obtain higher harmonisation of the pension. In this context it is emphasised that the ratio of the average pension to the average salary was decreased from 59.3% in 2004 to 55.5% in December 2006.

### 3.3.1 Social Security

Following the experiences that arose from the Open Method of Coordination between the EU member states, it should be emphasised that the Republic of Macedonia partially meets the general guidelines, recommendations and common goals in the area of social inclusion. The decreasing of the risk from social exclusion is achieved by:

- Providing social rights and social services for the basic social risks defined in the Law on Social Security (Official Gazette of the Republic of Macedonia No. 50/97, 16/00, 17/03, 65/04, 62/05 and 111/05), risks related to health, old age, maternity and family, unemployment, professional non-adaptation and non-adaptation to the social environment;
- additional measures in the fiscal policy, employment, education, housing, family policy and health-care; as well as
- Implementation of plural social security and implementation of the principles on decentralisation and deinstitutionalisation.

A Unit for Protection and Care for Socially Excluded Persons has been established within the Social Security Department of the Ministry of Labour and Social Policy, where for social inclusion are created and implemented for the following persons: street children, victims of family violence, drug addicts and family members thereof, homeless persons and other vulnerable groups.

The establishment of the Register of Citizens' Associations which operates in the sphere of social security enables the participation of the relevant non-governmental organizations in the for dealing with social exclusion. In order to further develop the partner relationship with the non-governmental organizations and the private institutions, the Ministry of Labour and Social Policy has established a Unit for Public and Private Institutions, through which it cooperated with two non-governmental organizations in the course of 2006, regarding the following: National SOS line for victims of family violence and National SOS line for Drug Abuse.

The activities aimed at the decreasing of the risks from social exclusion are also conducted through extra-institutional forms of social security and providing assistance to the vulnerable groups thus decreasing the risk of being institutionalised.

The decentralization process constantly continues, wherein the fiscal decentralisation of certain municipalities has gradually started.

A new right has been introduced in the social security, i.e. monetary assistance to a person who up until 18 years of age had a status of a child without parents and parental care, which assistance is provided until the person turns 26 years. Moreover, inspection supervision has been introduced over the implementation of the laws and other regulation in the area of social security over the social security institutions and other legal entities and natural persons which perform certain activities in the area of social security, for the purposes of more efficient and more effective exercise of the citizens' rights in the sphere of social security. The Ministry of Labour and Social Policy has adopted a Rulebook on Internal Organization and a Rulebook on Systematisation, whereby a Department for Inspection Supervision in the area of social security has been established.

Furthermore, a general list of the specific needs of the persons with intellectual and physical impairment has been prepared.

A rulebook on the norms and standards for establishing and commencing the operation of a day care for disabled persons has been adopted.

Short-term priorities:

- Harmonisation of the national legislation with *acquis* in the area of social security and reformation of the system, aimed at protection of the most disadvantaged population groups;
- Harmonisation of the national legislation pertaining to family for the purposes of promotion of the system for protection of victims of family violence;
- Capacity building in the Department for Inspection Supervision in the area of social security, in the implementation of the laws and other regulation in the area of social security in the social security institutions and other legal entities and natural persons which perform certain activities in the area of social security, for the purposes of more efficient and more effective exercise of the citizens' rights in the sphere of social security.
- Preparation of the Republic of Macedonia for the purposes of full participation in the Open Model for Coordination aimed at social inclusion by means of joint engagement of Republic of Macedonia and EC resources;
- Undertaking activities aimed at improvement of the social inclusion of the young persons, in accordance with Resolution of the Council and of the Representatives of the Governments of the Member States, dated 14 December 2000;
- Reduction of the family violence by determining priority goals, measures and activities for their implementation and key holders of the policy for combating family violence – Adoption of a National Strategy for Family Violence; Capacity Building at local level for work with victims of family violence;
- Exercise of the right of a child to live and to be provided with care in the biological family or adequate alternative care, by providing adequate extra-institutional protection and decreasing the number of children in the institutions – Adoption of a National Strategy for Deinstitutionalization; Capacity Building in the Centres for Social Work for operation with alternative forms of child care;
- Improvement of the conditions and the exercise of the right to independent life of adults with intellectual impairment accommodated in the Special Institution – Demir Kapija; – Deinstitutionalization, Improvement of the conditions and the exercise of the right to independent life of adults with intellectual impairment accommodated in the Special Institution – Demir Kapija – through capacity building and the policies of the Ministry of Labour and Social Policy;
- Development of extra-institutional forms of social security of the socially excluded persons – for children with impairment, street children, drug addicts; establishment of two small group homes, for inclusion of little institutions in the system for social security, in accordance with the National Strategy for Deinstitutionalization.

### **3.4 Education and Science**

The Ministry of Education and Science through its programme orientation and reform activities plans to establish connections with the labour market; to involve the social partners into the educational process; to establish an education based on knowledge; to introduce the philosophy of “Lifelong Learning”<sup>14</sup>; and to validate competencies gained through formal and informal education.

With the process of decentralisation, there is a redistribution of the responsibilities of the main educational processes and financing of the three levels of the educational system, central, local and school. Local and school responsibilities will increase while at the expense of concentrated responsibilities of the central level.

The adaptation will be as follows:

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<sup>14</sup> Accession Partnership priority, Chapter 25 - Education and science: “Complete the legislative and administrative framework for the management of the Lifelong Learning and Youth in Action programmes and strengthen the implementing bodies”.

- reorganisation of the administration and management of the education system, through creating new laws and the management for the local self-government and the financing of the local self-government ;
- improvement in the management and governing of the educational system, including strategic concepts for capacity building at central level;
- Development of a more efficient funding formula.

In 2007, the National Programme for the Community in the Field of Education and Training will be created. The Ministry of Education and Science is the National Coordinative Body for participation in the Community in the Field of Education and Science, Socrates II and Leonardo Da Vinci.

The establishing of the national agency, and will be financed equally by the National Budget and the CARDS/IPA budget. The national agency will employ 5 persons in 2007, and will add employees each year until 2010 according to funding. External expert support for organizing and equipping the national agency will be required. The new mechanisms for quality assurance will be introduced: external evaluation for student's achievements; increased duration of the elementary education from 8 to 9 years; introduction of the compulsory secondary education for 2008; redefining the role of the directors of the educational process; depolitisation of the governing of the schools, through strengthening of the school councils; preparing the higher institutions for the Bologna Processes, through installation EKST1; developing a system for quality assurance and assessing higher education; and creating the legislative authorisation for private higher education institutions. Some steps have already been taken for controlling and assessing the educational process. Scientific research activities now have a stronger criteria for financing and require qualification of the employee conducting the research.

### **Primary Education**

The primary education in the Republic of Macedonia is compulsory. 96% of the school aged children attend primary education. Activities in reconstructing old school buildings and constructing new school buildings are insufficient and do not satisfy the current technical and hygienic standards.

With decentralization, the responsibilities for primary education are transferred from the central to the local level. Compulsory primary education is nine years. This includes an increased duration of the elementary education to 9 years, in three periods (three years for each period).

**TEXTBOOKS:** There are new mechanisms for the evaluation of textbooks and there is a procedure for competition in publishing textbooks.

**FINANCING:** The financing of the primary education is from the budget of the Republic of Macedonia allocated to the municipalities through the earmarked grants and block grants according the law for financing the units of the local self government. From 2007, the finance support should be based on a specific formula which will be created on the basis of the number of the students in the municipality. The second phase of decentralization shall start from 1 September, 2007 in the same municipalities (42 municipalities). The financing of these municipalities will be through the block grants that will cover maintenance costs as well as the salaries for the employees.

**CURRICULUM:** A new concept for elementary education has been adopted as well as new curricula for the I, II and III grade. Foreign languages will be taught at an earlier age due to the need to be multi-lingual. Currently the first foreign language is taught in the I grade. Civic education will be introduced to learn more about each individual and social integration.

To stimulate team work there are extra curricula activities in schools. This will help increase student dialogue and cooperation, among all of the local community contributing towards the democratic development in the country too.

### **TEACHERS, PROFESSIONAL WORKERS, DIRECTOR:**

By law, teachers of primary education must have finished higher education. The teachers in the preparatory year have the opportunity to finish their higher education within four years. The Bureau for the Development of the Education have undertaken many activities, projects and with the NGOs conducted training for the teachers.

A change in the procedure of appointing directors of the schools is expected to depoliticise the process. The Mayor of the municipality will appoint the director from the proposal of the School Council. In order to improve the

qualifications, the directors of schools are required to attend accredited training by the Ministry of Education and Science and pass the examination for directors of schools.

For the purpose of improved delivery of the teaching process in the new nine-year elementary education, the Bureau for Development of Education does training for 3.000 elementary school teachers in two cycles (in July and August 2007).

#### **EVALUATION OF SCHOOLS:**

The self-evaluation of the schools is a procedure which will take place every third school year, as established by law, and the State Educational Inspectorate monitors and makes an integral evaluation of the educational process to improve the school quality.

#### **INCREASING THE NUMBER OF AT RISK PUPILS:**

The Ministry of Education and Science gives special attention to include the pupils at risk primarily children in the rural areas, children with low social conditions, and Roma children.

Free transportation is ensured, as well as accommodation in dormitories, and accommodations for families, spreading the net with counselling and other social services.

NGOs have been very involved with the at risk population. The Roma Decade emphasised the need to attract more Roma children into the schools. A scholarship fund for Roma children was established. In many schools there are activities for including children with special educational needs. Following the trends for Lifelong Learning, the Ministry of Education and Science verifies primary education classes for adults.

#### **PROJECTS:**

The process of modernisation of the education in the Republic of Macedonia and increasing the quality of schools is supported by many projects:

- modernisation of the education;
- donation of computers by the Peoples Republic of China
- Implementation of internet network in schools by USAID;
- E-schools, and training the teachers to learn how to use the computer as a teaching tool in the classroom ;
- Extra curricula activities.

#### **Secondary Education**

The changes in the Law on Secondary Education introduced the secondary education as compulsory education starting from the 2008/2009 school year. The Ministry of Education and Science did a thorough analysis on the premises, equipment and staff in the secondary schools and concluded that no major undertakings are required in order to achieve full inclusion of the students in the secondary education. In some municipalities adaptation of the premises is already under way. The development of a new concept on secondary education is currently taking place.

The structural reforms in secondary education, especially for vocational programs, were prompted by EU integration and government priorities to address the wide-ranging needs of the economy, labour market and citizenry.

Education today is the answer to many social and economic issues.

The reforms in secondary education are mainly moving towards:

- Decentralisation second phase;
- Quality assurance in the educational process and training; and
- Equal opportunity for all in the educational process.

The Ministry of Education and Science has undertaken the process of decentralisation of the secondary education. The Law for Secondary Education was realised through planning of the staff for the local level in the secondary schools, including social partners, governing of the schools and other activities intended to transfer responsibilities from the central to the local level.

The centralised system and the network of institutions for vocational education and training (VET) were not capable of responding to the changed conditions of the labour market, the needs of the professional staff and accelerated local development.

The reforms process involved the following:

Analysis of the economic and labour market needs and develop responsive curriculum:

- clustering the vocations and profiles achieves flexibility and opportunities for easier employment;
- development of entrepreneurship skills;
- improving practical skills for direct involvement in the production process;
- Improving general and key competencies of young people by developing the computer, communication and entrepreneurial skills; and
- reforming gymnasium education.

More work remains in development of the programs for the third and fourth year in the four-year vocational education and reforming in the three-year education except the three vocations reformed through the GTZ.

Improving the infrastructure and equipping of the schools with:

- IT equipment; and
- Specific equipment.

A high level of equipping of schools with IT equipment has been achieved. Wireless internet connections have been provided for all secondary schools. The specialised equipment which was donated to the schools involved in the VET 1, 2, 3 and 4 programs provided quality in the practical teaching and improvement of the practical skills of the students.

Real and virtual companies were opened in the schools as well as career development centres for the students. This stimulated the development of self-initiative, innovation and self-employment.

The teacher training included:

- computer skills development;
- language skills development;
- application of the new teaching methods and techniques in the teaching process;
- development of communication skills and teamwork ability; and
- Acquisition of practical skills for using special equipment.

The necessity for continuous training of the teachers remains one of the priorities and assists career development of the teachers.

Training of principals: a system for training of principals and passing of principal exam has been established.

This results in improvement of the principal's skills in communication, planning and management of the human and material resources, cooperation with the social partners and the local community.

Institutional strengthening



In order to strengthen the human resources, the administrative staff of the Ministry Of Education was trained through direct involvement in educational projects, training for administrative work and the key competencies of IT and languages.

A new institutional structure has been established to improve the quality of secondary education.

The Law on Vocational Education and Training was adopted to improve the vocational education sector. This law transforms the Sector for Vocational Education from the Bureau for Development of Education into a Centre for Vocational Education and Training. The centre plays a key role in designing education to fit the economic and labour market needs.

The Assessment Sector in the NDE will become a State Exams Centre which will be in charge of external assessment, in order to obtain objective assessment thus bringing quality in the education. In the state high school graduation exams will take place for the first time in 2008.

The State Educational Inspectorate is responsible for implementation and quality control of the legislation. Strengthening of their capacities contributes towards the overall improvement of the work of the educational institutions, consistent implementation of the legislation and prevention of corruption.

These changes were derived from the necessary changes in the legislation:  
amendments in the Law on Secondary Education;

- the Law on Educational Inspectorate;
- the Law on Bureau for Development of Education; and
- the Law on Vocational Education and Training

These laws will help improve the social partnership on sectoral and on local level.

In order to improve the implementation of the ICT for the elementary and secondary education students in 2007 the government started the "Computer for Every Child" Project that will be implemented during 2008.

For the purpose of realisation of the new curricula in the teaching subject of physical education, the number of teaching hours per week was increased in order to create new healthy generations. The Ministry of Education and Science have started the multi annual project for the construction of gym halls in primary and secondary education. For the implementation of this project, funds were secured from the national budget of the Republic of Macedonia and financial loan from the Bank of European Council.

#### Future Steps

The reform process is ongoing. Reform of the three-year vocational education program is needed and post-secondary and adult education needs development, Dissemination of the Copenhagen processes should continue with special emphasis on:

- development of a National Qualifications Framework in accordance with the European
- Qualifications Framework;
- implementation of the state High School Graduation Exam;
- Adoption of the Law on Adult Education in the context of lifelong learning;
- establish a system of adult education; and
- orient vocational education and training towards the principles of the European
- Strategy on Employment which is based on partnership, flexibility and equal opportunities.

#### University Education

University education is an integral and inseparable element of development of every country. It is not only the strongest agent affecting social and economic development internally in the country, but it is also a quality that legitimises itself internationally. The privatisation process in the Republic of Macedonia greatly affected the labour market and the character of the labour force.

According to statistical data, the percentage of unemployment for university educated people of the total number of unemployed people, is 6,7%. These people wait for job more than four years.

For this purpose, the universities see the employment of their graduates as a very important objective and confirmation of the results of their work. This requires greater flexibility of the study programs, their academic validity and relevancy to the labour requirements.

In the past, the state universities met the labour market needs for university educated human resources. However, the process of globalisation, the political transformation and strengthening of the private initiative has significantly disrupted this balance. The changing nature of the economy demands a labour market that is flexible and which is possible to be met only by flexible and dynamic educational institutions. Therefore, the universities must change their current attitude and develop new structures that will be compatible with the overall changes in the labour market. With the signing of Bologna Declaration, Macedonia becomes a full member of the family of European countries that pledged to follow and realize the recommendations for creation of a single European area for higher education.

The Law on Higher Education was amended to implement the provisions of the Bologna Declaration. Some of the key changes that will be implemented are:

- adopting the three cycles of degree structure, graduate, post-graduate, and
- doctorate;
- implementing a Diploma Supplement to make degrees easily understood and
- comparable;
- adopting the European Credit Transfer System (ETCS);
- promoting mobility to overcome obstacles for students and faculty to study and
- collaborate internationally; and
- promoting European collaboration through integrated study programs receiving
- credit for studying abroad

### **Science, Technological Development and Technical Culture**

The scientific-research activities in the Republic of Macedonia should be the core factor in:

- providing better living standards of the Macedonian people;
- stimulating economic development of the country;
- undertaking research and protection of the identity and cultural heritage of the
- Macedonian people and all other minorities living in Macedonia; and
- promoting research and protection of the natural heritage of the Republic of Macedonia.

Today, more than ever, the science and its application are necessary for growth and development. The State, in cooperation with the private sector, should provide broader support for appropriate and well documented scientific and technological designed to improve and sustain economic, social, cultural and environmental development. Sustainable technological development requires a solid scientific foundation and should be safe, energy efficient, and not damaging to the environment. Science and technology should be a partner in developing the strategies for greater employability, competitiveness and social justice.

The technical-technological development in the country should result in effective innovations to improve overall development. Development in this area should result in improvement of the overall quality of life because of increases in productivity, employment, care for the environment and for the work place. The development of these carriers of technologies will increase their competitiveness on the market and decrease the current technological gap in relation to developed countries.

A law will be adopted to establish scientific centres of excellence whose mission will be to connect domestic with world science by conducting international scientific-research projects as well as transfer of new technologies. The scientific centres of excellence have two models, scientific-research institutions or a group of scientific researchers. The centres are expected to attract the highest quality of scientist and conduct original work across the spectrum of scientific disciplines.

A Board of Ethics will also be established to monitor and evaluate the application of the ethical principles and values in the scientific-research activities, business relations and in the relations with the public. Additionally, the Board will set standards for the protection of an individual's integrity and human dignity in experimental research, and also the environmental.

The ethical board will also prevent monopolies, will be in favour of competition and will work hard on prevention of forgeries in the scientific researches.

### 3.5 Agriculture

The aim of the harmonisation of the national legislation with the administrative structure in the EU, in areas governed by CAP (Common Agriculture Policy), shall remain in 2007 a basis for the implementation of reforms and strengthening and establishment of competitive sectors in accordance with the requirements of the European Union. In that respect also is the implementation of the land policy measures, rural development, agriculture production and markets, budget support in agriculture and rural areas, as well as strengthening of the existing and establishment of new institutional structures needed for implementation of the provisions of the harmonized legislation, as well as supervision/surveillance.

The Government of the Republic of Macedonia adopted the **National Agriculture and Rural Development Strategy (NARDS) 2007-2013** in May 2007 which defines the basis, directions and measures of the **agriculture and rural development policy**, as well as institutional development and joining of the national priorities within the overall agenda for the EU integration.

The Law on Agriculture and Rural Development was adopted by the Parliament in October 2007 (enters into force on 1 January 2008) which regulates the sectors such as agriculture and rural development, introduces new provisions which serve as a legal basis for enactment of by-laws which derive from the Common Agriculture Policy of the EU.

Agriculture is an important sector in the economy of the Republic of Macedonia. The Gross Domestic Product of the agriculture participates with 11% in the overall GDP in 2006. Including the related activities that concerns processing of agriculture products in the Republic of Macedonia, the share increases up to about 15.8% of the GDP. Around 100.000 individuals are employed in agriculture full-time and additional 20.000 farmers involved in agriculture as additional activity, as well as significant number of seasonal employments (particularly in the field of fruit and vegetable farming). Traditionally, agriculture is one of the most important sectors in economy and has a key role in the successful implementation of structural reforms of the country, because of its social role in the provision of food and stable income.

#### 3.5.1 Agriculture land reforms

Around 1,3 million ha (50%) of the total area 2,57 ha in the country have been classified as agriculture land<sup>15</sup>. Out of this resource, 600 000 ha (51%) ha have been classified as arable land with 700.000 ha, as pastures (mainly plateau). The rest, around 1 million ha are plateaus and mountain forests and around 2 % are lakes, of which Ohrid, Prespa and Dojran lake are the biggest. Individual farmers possess or rent around 80% (around 463,000 ha) of the overall arable land; while the remaining of 20% (196,841 ha) are state-owned. The major part of the pastures is owned by the state and managed via public enterprises.

Agriculture land is a benefit and of general interest for the country. The new Law on Agricultural Land is in the second stage of adoption, and regulates the utilisation, availability, protection and re-allocation of agricultural

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<sup>15</sup> Agricultural land includes arable land and pastures. Arable land includes available land for cultivation of crops, plus land planted with orchards, vineyards, and pastures. Cultivated land includes land planted with annual crops (cereals, industrial crops, vegetables and fodder crops), plus nurseries and non-cultivated land/fallow land.

land. In that respect, the law regulates the measures for utilisation of state-owned agricultural land, enlargement of arable areas, implementation of agro-technical and agro-irrigation measures, and prevention of the erosion, pollution and contamination of agricultural land, regulation of the method of temporary and permanent re-allocation.

Measures defined in the law, enable legal soundness in the utilisation of agricultural land with equal treatment of domestic and foreign legal entities, settlement of the issues with withdrawal of the right to utilisation of the beneficiaries of agriculture land, priority treatment etc.

The Ministry of Agriculture, Forestry and Water Economy is a competent institution for the creation and implementation of the land policy. MAFWE has no established structure of agricultural land registers. In order to overcome these weaknesses MAFWE, supported by the World Bank project for strengthening of agriculture and accession to the EU, activities have been taken for the establishment of the Integrated Administrative Control System, single Farm Registry of and Land Parcels Identification System.

In that respect, one of the key measures in the land policy in 2008 is to accelerate the process of improvement of the state-owned land management, development of the agricultural land market following the principles of transparency and efficiency, consolidation of fragmented agricultural land and improvement of the agricultural land protection in accordance with the Law on Agricultural Land.

Certain activities in terms of capacity building of the state administration to implement the system of distribution of agricultural land owned by the state were realised and related to those activities for the establishment of an information system for distribution of agricultural land owned by the state. Namely, the Department for Registration and Management of Agriculture Land has been established. The basic aim of the department is to provide analytical, normative, management and information tasks in the field of land policy. Staff from the State Geodetic Institute were engaged (eight officers have been transferred to the Department and also two from the State Agriculture Inspectorate), but the new administrative staff shall be continuously employed and trained.

Additionally, with the second stage (commenced July 2007) the project on Establishment of National Vineyards of Monitoring and Management System, the overall area of vineyards of Republic of Macedonia shall be covered, in the coming period. It is planned that this system should be a basis for development of an agricultural land register for the overall agricultural land.

### **Common market organizations**

Regarding the Common Market Organizations (CMOs) the development regarding wine and tobacco shall continue.

Regarding wine, the following documents have been adopted:

- Book of Rules on the methods of partial dehydration of the must/unfermented grape juice and enological means and procedures used in the production of wine,
- Book of Rules on the methods of analysis to identify the chemical structure of wines and the method of utilisation of refract meter,
- Book of Rules on classification of grape varieties for the wine production,
- Book of Rules on the form, contents and dimensions of the label on the wine and other data on the label,
- Book of Rules on the conditions to be met by the laboratories authorised for the provision of enological examinations and analyses regarding premises and equipment, and
- Book of Rules on the conditions regarding premises and equipment for wine production.
- Regarding **tobacco**, nine by-laws have been enacted and published:
- Book of Rules on the premises for purchase (collection canters), storage and industrial processing of tobacco, appropriate premises for storage of processed tobacco,
- Book of Rules on the form, contents and method of issue of card for production of tobacco,
- Guidelines for the method of application, form and contents of the application form for the agreed tobacco production,

- Book of rules on the contents and form of the application form for registration in the register of tobacco purchasers,
- Book of rules on the form, contents and method of keeping of the registry of tobacco producers,
- Book of rules of the measurement of the qualitative and quantitative assessment of the raw tobacco (leaf),
- Guidelines on the form, contents and method of keeping the registry for assessment of the quality of the raw tobacco (leaf), and
- Book of rules on the form and contents of the license for the assessment of tobacco and methods and the programme for the examination for obtaining a license for the assessment of the tobacco.

In addition, *the Programme for Financial Support for the Tobacco Producers* was included in the enacted Programme for Support to the Development of Agriculture in 2007.

Regarding other products, a Programme for Support for the Establishment of New Organizations of Producers which will support and strengthen the capacity of the existing organizations of producers.

Regarding the Agriculture Information System (AIS), a Strategy and Operational Plan for the development of sustainable and efficient system has been drafted that will be supported by the World Bank project for strengthening of the agriculture and EU accession.

Regarding the AIS and the census in agriculture, conducted in July 2007, statistical data have been received, processed by the methodology and statistical standards of the EU. Upon receipt of the results from the agriculture census, the next envisioned step is the establishment of a Farm Register and integration of different registers/data bases into the Register.

The system for cattle identification and registration has been established, and it will be extended by adding sheep and goats. The system has been supported by the project for establishment of National system for identification and registration of animals – third stage.

Regarding institutional capacity building in the viticulture department, *a National register of vineyards* has been established for the pilot sub-region Tikves region which covers 15 cadastre municipalities of around 18.000 hectares of the overall area, of which around 11.000 hectares are vineyards. This area was selected as pilot region. Extending this register nationwide is an ongoing process (its second stage – started July 2007) through the project for Establishment of the National vineyards monitoring and management system. The Unit of Viticulture, Wine and Fruit Production under the Agriculture Department has been gradually staffed (1 officer was transferred – cadastre administrator of the State Geodetic Institute, currently there is an ongoing recruitment procedure for a civil servant/agronomist, the employment will continue in 2008). The National Laboratory on Wine has been equipped with enological equipment.

Regarding tobacco-production, additional equipment and software program have been procured than for the purposes of registration of land parcels, production, agreed contracts and tobacco buyers.

Concerning the Agriculture Information System (AIS), Agriculture Department on policy analysis has been established and will be gradually staffed.

### **3.5.2 Rural development**

In November 2005, MAFWE was appointed, by the government, as the managing authority for rural development and in coordination with other relevant stakeholders in the country develop the policy and the needed institutions to enable sustainable development of rural areas. An inter-institutional body for rural development in-charge for management of integrated policy for rural development has been established.

In the period 2006/2007, four sub-sectoral studies have been prepared for the priority sectors (wine and grapes, fruits and vegetables, milk and dairy products and department for meat processing) as a basis for drafting the IPARD Plan.

The objective of the IPARD Plan is to contribute in achievement of the general national development objectives as well as the objectives for the agriculture and rural development in accordance with other national and international multilateral and bilateral programmes and actions. This process is in accordance with the structural and legal framework created for the purposes of preparation for the EU accession.

The IPARD plan measures are focused on the competitiveness of the commercial farms and processing food industry in the respective sub-sectors through investment policies for the improvement of the technical and market infrastructure in order to achieve increased added value of agriculture products and compliance with the EU standards for quality, health, food safety, animal welfare and environment protection.

Measures to be implemented under the priority axis 1 are as follows:

- Investments in agriculture holdings for restructuring and upgrading to the community standards, and
- Investments in processing and marketing of agriculture products and fish products for restructuring and upgrading to the standards of the community.

Equally, the IPARD support should contribute to increase the quality of life of the rural population, increased income and creating new employment opportunities for the development and diversification of the on-farm and off-farm activities to balance the disparity among the regions compared with the urban areas.

The measure “Diversification and development of rural economic activities” to be implemented in order to achieve the aims of the priority axis 3, taking into consideration the high percentage of unemployment in the country.

In 2007, the IPARD Programme was prepared and submitted to the European Commission in August 2007 for review and comments.

In addition, the National RD Programme for 2007 was enacted, with a total budget of 75 million MKD, for its implementation. This programme includes the following measures:

1. Investments in agriculture holdings
2. Investments on processing of agriculture products

Regarding the institutional capacity connected with the rural development, the Department for Financial Support in Agriculture and Rural Development under the Ministry of Agriculture, Forestry and Water Economy was divided creating two new departments:

- The Department of Rural Development and,
- The Department for Financial Support in Agriculture and Rural Development.

The Department for Rural Development will be gradually staffed and developed. The Structural and Legal Reforms Project, as well as the World Bank Project for Development of Agriculture and Accession to the EU have provided technical assistance.

### **Agency for financial support in agriculture and rural development**

The Law<sup>16</sup> on Establishment of an Agency for Financial Support in Agriculture and Rural Development<sup>17</sup> has been adopted which represents a legal basis for its establishment. The agency will implement national policy measures for agriculture and rural development as direct payments in agriculture and rural development. Additionally, the agency will implement measures of the EU pre-accession funds for rural development (IPARD). The first draft manuals and procedures of the agency have been already designed.

The future staff will be continuously recruited and trained.

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<sup>16</sup> 1 July 2007

<sup>17</sup> Accession partnership priority, Chapter 11- Agriculture and rural development “Continue preparations to establish effective and financially sound paying bodies for the management and control of agricultural funds, in line with EU requirements and international auditing standards”.

Technical assistance has been provided by the Structural and Legal Reforms Project, as well as the World Bank Project for Strengthening of Agriculture.

### **Phytosanitary Policy**

The Law on Plant Protection Products has been enacted, and it regulates the production and trade of plant protection products, as well as the basis for establishment of a department for plant protection products under the Phytosanitary Directorate. Institutional capacity building was planned for this department, in 2008, regarding human resources, an increase of the number of personnel to work and be trained in authorisation and post-authorisation control of the plant-protection products in accordance with the provisions of the Law on Plant Protection Products, which has been harmonised with the relevant EU directives. The practical implementation of the law should start from 1 January, 2008.

It is necessary that work conditions regarding the laboratory and other equipment for phytosanitary inspections in accordance with the EU and international standards to be provided.

The traceability system should be strengthened in the whole territory, and the training of the human resources has been established in seven regions – laboratories, and equipment of laboratories.

The Law on Fertilizers has been harmonised with the relevant EU legislation. Drafting of regulation shall continue, with details defined in the by-laws, deriving from the Law on Fertilizers and re-organization of the work of the laboratories and other legal entities involved in this field. The procedures for capacity building of the human resources and additional equipment are ongoing so they can be put in function and incorporated in the phytosanitary system in accordance with the new national legislation, which has been harmonised with the EU legislation and the EU and international standards.

### **Veterinary Policy**

Of the numerous activities the Veterinary Directorate as a body within the Ministry of Agriculture, Forestry and Water Economy in accordance with the Law on Veterinary Health Care (Official gazette 113/07); Law on Veterinary Public Health (114/07); Law on By-Products (Official gazette 113/07); Law on Animal Welfare (Official gazette 113/07) as well as books of rules and other documents which derive from these laws in the coming period with stress on the veterinary official controls and introduction to veterinary Information System - VIS which are regarded as priority activities of the body.

### **Veterinary Official Controls**

The modern concept of the official controls in the veterinary department, aims at cross-compliance within the whole food chain, through integrated approach “*from farm to fork*”, in the frame of multi-annual national control plan.

The aim of the official controls are to check and verify the cross-compliance with the existing and appropriate legal requirements and technical specifications which are applicable in the overall chain of production, processing and distribution of food, including the aspects of health care and animal welfare. The aim is to prevent public health risks or animal health care or environmental risks.

To achieve the objectives, official controls must enable **continuous, uniform and efficient** satisfaction of the existing and relevant legal and technical requirements.

**Official controls for animal health care and welfare, food and fodder hygiene, will be planned and implemented based on detailed and tailor-made quantitative risk analysis that will define the frequency and modalities of the applicable controls.**

### **Implementation of official controls**

More important than the regular planning is the quick and efficient implementation of the official field controls. For that purpose:

- Methods and procedures for documentation of the data and reporting will be revised in order to enable closer and appropriate monitoring of field controls, as well as results. The monitoring will take place by way of planned timetable of observations and measurements, in order to obtain an insight into the level of approximation with the application requirements. This will be achieved by the redesigned forms to be adapted to the individual subject of the official control, thus avoiding the ambiguity or duplication. The monitoring of the field activities will be significantly strengthened when the appropriate applications become functional.
- The documentation and reporting are useless if not followed by **correlation** and **evaluation** of data, on regional and national level. The evaluation has to be implemented with appropriate frequency and attention to enable early identification of the trends and sources of potential problems, as well as initiate timely and targeted corrective activities. Evaluation of data will be provided through indicators for implementation of each individual type of official controls.
- Where necessary, data evaluation has lead to **correction of the activities** whose aim is to return the level of approximation with the appropriate requirements and possibly, connect the aims set with the results achieved. These activities must be based on rational reasoning and analysis, in order to be convincing and proportional to the current or the anticipated risk.

### Audit of the official controls

Official controls will be subject to a systematic audit to identify whether the activities and results comply with the planned arrangements and at the same time, whether these arrangements are efficiently implemented and appropriate for achieving the objectives set:

The audit will be organized in three (3) levels, in the following way:

- The first level, the internal audit will be implemented on an *ad-hoc* basis at a regional level, in order to check and if needed, to correct the regular activities of the official and the authorised veterinarians. This type of audit has a technical character;
- At the second level, the internal audit will be implemented in a structural manner, on central level, in order to examine the complaints, avoid the existing obstacles or delays, as well as to improve the implementation. This type of audit has a technical and administrative character.
- The external audits shall be implemented by FVO and other departments of the European Commission, which are expected to conduct the inspections on the spot, with increase frequency especially in the pre-accession period. The comments and recommendations by EC will be taken into consideration and will be followed.

### IT Support – Veterinary Information System (Vis)

Significant portion of the work has been completed through technical support of the project “National Programme for Animal Identification” – Stages I, II and III, but, additional activities are planned in order to introduce and use the information technology at all the veterinary fields which are subject to official controls.

Following is the summary of the IT applications, the Veterinary Directorate expects for the period 2007-2009:

- *Registration of cattle farms and registration of cattle* – The activities are in advanced stage, all farms have been registered and entered into the database, and all cattle identified with double earmarks and entered into the database. The further work includes routine implementation and permanent update.
- *Registration of sheep/goat farms and identification of animals* – The work is in the stage of preparation, legislation was been enacted, the software has been designed, a census of animals has been prepared and a pilot-project has been conducted for implementation. In this part, the animal identification remains and entering data to the database.
- *Registration of pig farms and animal identification* – the work has not started yet except compiling of a preliminary farms register.

Development and integration of the Veterinary Information System (VIS) within the I&R database. The VIS will consist of functionally independent modules:

- TRACES-like IT system – to be used on the border posts;
- Sample management module – that will enable overall traceability of all types of samples tested for any objective of the official controls.



- Module for implementation of contingency plans – including introduction for forbidden areas and farms, applicable controls and safety measures, as well as resources planning.
- Modules for implementation and documentation of official controls on farm /facility, or animal/type of product – This module will include individual procedures (workflows) for different specific activities, for ex. Identification of source of disease, for control/eradication of cattle tuberculosis and brucellosis, TCE supervision/monitoring and control of facilities for food/livestock feed production and . For each procedure, the module will record and link the individual types of control, results, as well as follow-up measures. The module by additional procedures could be easily extended.
- Module for cross-compliance and verification of the accompanying documentation for disbursement of the compensation for the animals, which have been slaughtered/killed under the .
- List of tasks for each veterinary inspector for a given timeframe, which can be extended with appropriate work procedures.
- Bank of documents – permanent update with the forms and documents most frequently used for individual official controls.
- Statistical information means for information, interpretation and aggregation at various levels, fro statistical and operational aims.

The completion of VIS, as well as integration with the overall Agriculture Information System which is maintained and managed by MAFWE, will be realized in the period 2009 – 2010, via the project financed by World Bank.

### **Water Economy**

In the field of water economy, through the Programme for Revitalization of Villages, the following measures have been implemented:

- Implementation measures – a progarmeme for investments in public goods (water supply systems and sewage systems). Namely, the programme co-financed the construction and refurbishment of water supply systems in the villages, developed sewage systems in the villages and developed technical documentation for water management. For the implementation of the envisioned objectives, the planned amount is 15.000.000,00 MKD. Out of the planned 15.000.000,00 MKD, twenty contracts have been signed. Out of them twelve contracts planned for construction and refurbishment of water supply systems, six contracts for sewage systems and two contracts for drafting technical documentation. The programme has been entirely completed.
- Measure for implementation – a programme for the support to infrastructure in agriculture (improvement of the for drainage and irrigation systems) has been implemented through the Programme for Support to Agriculture Development – the financial support to water economy development. With this financial support programme to the development of water economy the total amount planned was 30.000.000,00 MKD. The funds under this programme were intended for the following purposes: construction and refurbishment of water supply facilities for irrigation and supervision/surveillance of the construction process, re-structuring and irrigation, prevention of waters against harmful effects and drafting technical documentations. For the envisioned 30.000.000, 00 MKD 5 contracts have been signed in an amount of 18.578.020,00 MKD. Contracts have been concluded with the water community “Mazdraca” the village of Negotino-Vrapcishte for completion of the concreting the major canal of the river Mazdraca to the village of Dobridol in an amount of 2.000.000,00 MKD, with the firms GEING and Monting Energetika from Skopje for refurbishment and revitalization of the hydro-mechanical and electrical equipment built in the fundamental outflows of the dams Glaznam Lipkovo and ratevska Reka in an amount of 8.165.081,00 MKD and annex contract in an amount of 1.279.287,00 MKD for supervision/surveillance of the implementation of the refurbishment and revitalization of the hydro-mechanical and electric equipment with the firm “Cirko”- Skopje in an amount of 1.349.920,00 MKD, for “Cleansing of the 13-th canal and the canal Logovardi” with the firm “Stenton gradba”-Bitola, valued at 4.873.680,00 MKD and annex contract valued at 749.218,00 MKD for supervision of the construction works for “Cleaning of the 13th canal and the canal Logovardi” with the firm “Eko-Mar” engineering-Bitola in the amount of 160.834,00 MKD. Additionally, a decision was made for the disbursement of insurance contributions for employees in the water economy organization “Malesevsko Pole”– Berovo in the amount of 831.820,00 MKD, for which the Government of the Republic of Macedonia has issued a decision for liquidation.

The total amount of the concluded contracts is 18.578.020,00 MKD.

Of the agreed contracts the contract with the water community "Mazdraca", since the water community failed to implement the public procurement procedure. The work under the remaining contracts has been realized. For the realized contracts, an amount of 10.000.226,00 MKD was paid, while the amount remaining is 6.577.794,00 MKD. These funds have not been paid, since according to the balance sheet of the budget the total amount of the programme in amount of 30.000.000,00 MKD has been reduced to 13.068.00,00 MKD. Besides the disbursed 10.000.226,00 MKD for the concluded 4 contracts and the disbursed 831.820,00 MKD based on contract, for the re-structuring of the water management organization "Malesevsko pole"– Berovo (employees' health insurance and pension fund) an additional amount of 2.235.954,00 MKD has been paid due to a court decision.

## **Forestry**

The Department of Forestry and Hunting, which is under MAFWE provides administrative, technical and other tasks under the competence of the Ministry, which also covers issues in the field of forestry and hunting, management and utilisation of forests, forestation and nurture, protection of forests and development of hunting.

The aim and responsibility of the department is to allow legal, institutional and economic framework for implementation of sustainable economy with forests and game of the Republic of Macedonia and to enable a permanent financial mechanism that will be in function of improvement of situation of forests and game. The department within its competences shall also consider the social, economic and environmental segments in the society on local level.

Currently, forestry and hunting in the Republic of Macedonia are regulated by the Law on Forests („Official Gazette of the Republic of Macedonia“ no. 47/97, 7/2000, 89/04 and 54/07), Law on Hunting („Official Gazette of the Republic of Macedonia“ no. 20/96, 26/96, 34/97, 69/04, 84/07 and 113/07) and Law on Reproductive Material of the Forest Trees („Official gazette of the Republic of Macedonia“ no. 55/07).

In June 2006, the Government of the Republic of Macedonia adopted the Strategy for Sustainable Development of Forestry in the Republic of Macedonia, with the Action plan 2007-2009, and precisely defined dynamics and needed financial resources.

Part of the activities envisioned under the Strategy have been financed through the Programme for the Extended Reproduction of Forests, which in accordance with the Law on Forests, is enacted on an annual basis by the Government of the Republic of Macedonia.

The principal aim is to enable sustainable development of the forests and game in the Republic of Macedonia.

The measures for 2008 to be implemented are as follows:

- Afforestation and protection of forests and
- Hunting development of and game protection.

## **3.6 Transport and communications**

### **3.6.1 Road transport**

In order to increase the efficiency of the transport system in the Republic of Macedonia, intensive work has been completed on the finalisation of the legal framework that regulates the relations in the area of transport.

Therefore, Amendments to the Law on Transport in the Road Traffic has been prepared,(Official Gazette of the Republic of Macedonia No. 68/04 and 127/06) thus providing further harmonisation of certain provisions of the law with the EU acquis from this field, which above all are related to the conditions of the procedure for issuing licenses for performing certain types of transport in the road traffic, which includes:

- Issuing a certificate for professional competence of the manager or the authorised person in charge of transport;

- Issuing a certificate to the drivers so that they can participate in the international transport of passengers and goods;
- Financial stability of the transporters, as one of the conditions for acquiring a license for conducting international transport of passengers and goods.

In order to provide complete implementation of the provisions of the law, by-laws have been brought forth, which analyze certain provisions of the law in details, thus providing conditions for starting the procedure for issuing licenses.

Pursuant to the law, a Regulation has been brought forth for the manner and procedure of distribution of the licenses of international transport of goods (Official Gazette of the Republic of Macedonia No.107/07). The regulation introduces an electronic manner of distribution of licenses for international transport of goods that shall provide better efficiency and transparency as well as elimination of the corruption in the process of distribution. The Republic of Macedonia, regarding the bilateral agreements for international transport of goods with certain countries of Europe, exchanges around 100 000 licenses for truck carriage of goods.

As a member of the European Conference of the Ministers of Transport of Europe (ECMT), for 2008, the Republic of Macedonia shall use 922 licenses for truck transport of goods from the quote of ECMT.

The Ministry of Transport and Communications acquired new software for electronic distribution of licenses for licenses in the international transport of goods, thus providing better transparency in the distribution, as well as elimination of the corruption.

The amendments to the Law on Public Roads have been prepared as well. It is expected that the Assembly of the Republic of Macedonia shall adopt the amendment.

Currently ongoing is the preparation of the new Law on Public Roads, within the frames of the project for restructuring of the road sector in the Republic of Macedonia, through CARDS 2006. The Law shall be implemented as of the beginning of 2008. Pursuant to the recommendations of EC and the EU acquis, the Law foresees complete restructuring of the competences and the management in road sector.

At the same time, a decision has been brought about the amount and the manner of payment of the fee for the usage of the highway, national roads, their sections or objects along the road that are part of the Law on public roads. The novelty in this decision is that the payment is not going to be realized regarding the price of the fuel, as it used to be done in the past, but on the bases of the usage of the road infrastructure, i.e. on the bases of each passed kilometre, category of the vehicle and the length of the section, which is thoroughly in line with the fiscal acquis in the transport sector. The decision shall be valid as from 01.01.2008.

A new Law for the Transport of Dangerous Goods in the road and railway traffic (Official Gazette of the Republic of Macedonia No. 107/06).

The proposed decisions in the Proposal Law shall contribute towards harmonisation of the national with the EU acquis, thus providing quality and safely functioning of the transport of dangerous goods, acquiring knowledge for the risks of transport as well as improvement of the quality of services, in order to set the transport of dangerous goods and conditions for its quality and safety functioning to be on European level.

The priorities for development of the road and railway infrastructure in Republic of Macedonia are the translational axes: Corridor 10, the North-South axis that connects the country with the Republic of Serbia to the North and the Republic of Greece to the South; and Corridor 8, the East-West axis that connects the country with the Republic of Bulgaria and the Republic of Albania.

Infrastructural development in the Republic of Macedonia has achieved significant results in the past period, but the level of progress is still insufficient to fulfil current requirements of the society and economy for transfer of passengers and goods. Construction and completion of transport axes will lead to achieving greater economic results.

The transfer of passengers and goods is regulated by the Law on Road Transport. The provisions of the law are compatible with the European legislation allowing transport companies equal participation on the transport market.

In order to ensure safe and efficient regulation of the transport activities concerning sharing evidence, access and exchange of data with all bodies and institutions that operate in the field of transport are designed. The issues related to road traffic safety are regulated with the Law on Road Transport Safety that is under competency of the Ministry of Interior.

The future plan for development of the transport infrastructure involves priority projects, identified by the High Level Group for Transport as well as the initiatives of South East Europe through SEETO. Multi Annual Plan 2007-2011 was adopted. Multi Annual Plan 2008-2012 which upgrades the previous plan was in phase of preparation.

According to the High Level Group Final Report in which both Corridor 10 and Corridor 8 are recognized as transnational axes and multimodal routes, the following have been foreseen as priority projects to be implemented by 2010 in the Republic of Macedonia

- Construction of motorway Kumanovo-Tabanovce;
- Construction of motorway Demir Kapija- Smokvica; and
- Construction of motorway border with R.Albania-Skopje-border with R.Bulgaria.

The management of roads is performed in accordance with the Law on Public Roads that regulates rights, obligations as well as the relationship between Fund for National and Regional Roads (FNRR) and PE Makedonijapat. With regards to the planning, financing, construction, reconstruction, maintenance and protection of national and regional roads in Republic of Macedonia, FNRR performs its duties on the basis of Annual Programme. The Fund is financed by excises on gasoline revenues from the central budget, its own revenues including remuneration for the use of roads by foreign vehicles, car registration duties, tolls charged on highway sections, loans of IFIs and an insignificant amount of donations.

The annual plans are drafted on the basis of the funds of the FNRR, comprising further investments in the road sector, construction of new sections and maintenance in accordance with the medium and long term priorities identified in the Public Investment Programme (PIP) as a framework for the investments in the road sector in Republic of Macedonia.

From these funds many investments in the road sector in the Republic of Macedonia have been financed and will continue to be implemented in accordance with the Public Investment Programme of 2007-2009: Investments in the Corridors VIII and X financed by IFI (EIB, EBRD) and funds from FNRR:

- Bypass Skopje Phase I (K-8);
- Bypass Skopje Phase II (K-8);

Enforcement of bridges and rehabilitation of the part of E-75 (K-10), financed by NATO;

Investments from own funds for the national and regional road network in the Republic of Macedonia:

- Radovis-Strumica;
- Maintenance of the national and regional road network in the Republic of Macedonia;

PE Makedonijapat is a public enterprise that in accordance with the Law on Public Roads and is responsible for maintenance of the national and regional road network in the Republic of Macedonia. For its duties, the public enterprise signs Annual Agreement with the FNRR.

A study for restructuring the road sector financed by EBRD has been prepared, elaborating the possibility for introduction of competition for road maintenance.

Under CARDS 2006 technical assistance is provided for elaboration of Study for Restructuring the Road Sector in Republic of Macedonia, Road Investment Plan and National Transport Strategy for Roads. The studies will

explore alternatives in order to increase the effectiveness and efficiency of the road sector including restructuring administrative and management arrangements for the sector, introducing competition, development of appropriate investment and maintenance plans.

National Strategy for Transport was adopted by the end of June 2007. National Strategy for Transport is a overall plan of development, providing safe and efficient transport services, safety of all traffic participants, rational use of energy, stimulating the regional development and protection of the environment.

In the upcoming 2008-2010 period, there will be important activities for institutional capacity building of the road sector institutions, as well as enhancing physical and human resources in order to reach higher efficiency in the road sector. These activities will be undertaken in accordance with the new Law on public roads that will be harmonized with the *acquis*.

It is noteworthy to mention that the Government of the Republic of Macedonia undertakes preparatory activities for involvement of the private sector in the financing and management of the public services and physical infrastructure in order to increase the financial viability, improve the quality of the public services, develop infrastructure and introduce the business principles into the public sector. This will be done through cooperation between the public and private sector Public Private Partnership (PPP) for the infrastructure projects especially in the road sector.

### **3.6.2 Rail transport**

#### **Legal framework**

The Reform in the railway for the period 2007-20010 and it continues with the implementation of the laws from this field, and they are the following:

1. Law on Transformation of the PE "Macedonian Railways" C.O. Skopje, published in the "Official Gazette of the Republic of Macedonia" No. 29/05;
2. Law on Railways, published in the "Official Gazette of the Republic of Macedonia" Nos. 64/05 and 24/07
3. Law on Safety in the Railway Transport, published in the "Official Gazette of the Republic of Macedonia" No. 40/07
4. Law on Contracts for Carriage in the Railway Transport, published in the "Official Gazette of the Republic of Macedonia" No. 55/08

Basic characteristics of the new legal framework of this field is the application of the Directives of the European Union from the first railway package as well as preparation and introduction of the liberalization of the railway market.

#### **Reform in the Railway**

By August 2007, the Government of the Republic of Macedonia adopted all legal acts, necessary for the separation of the former PE "Macedonian Railways" C.O. Skopje, and they have been published in the "Official Gazette of the Republic of Macedonia" No. 58/07, as it follows:

- Decision for verification of the Plan for division of the capital, assets, rights, obligations and employees of the PE "Macedonian Railways" C.O. Skopje,
- Plan for division of the capital, assets, rights, obligations and employees of the PE "Macedonian Railways" C.O. Skopje,
- Decision for establishment of the Public enterprise for railway infrastructure Macedonian Railways-Skopje,
- Decision for establishment of a Share Holding Company for Transport A.D. Skopje,
- Statute of the Share Holding Company for Transport Macedonian Railways Transport A.D. Skopje,
- Decision for giving consent to the Decision for adopting the Statute of the Public enterprise for railway infrastructure Macedonian Railways-Skopje.

On August 8, 2007, the Central Registry of the Republic of Macedonia issued the documents by which registration and establishment of the two new companies has been made, that is:

1. PE for Railway Infrastructure Macedonian Railways-Skopje, and

## 2. Macedonian Railways Transport- A.D.Skopje A.Д. -Скопје.

The Government of the Republic of Macedonia has designated the new management teams for the two new companies and it appointed the management bodies in the same.

A Secor for Railways has been established within the Ministry of Transport and Communications, and in addition to its other tasks, it will act as a regulatory body, that is, a body for issue of the license for public transport and the decision on safety and investigation body as far as the Regulatory is established. A proposal is underway for adoption of a law on establishment of an agency for regulation of the market of railway services, with Law Proposal, which will be adopted by the Assembly of the Republic of Macedonia by the end of this year, and it will be implemented from January 1, 2009<sup>18</sup>.

Access to the railway infrastructure: By the World Bank Loan a completion of a Study to establish a charge for access to the railway infrastructure. The Study is under preparation by a Consultant Systra selected under a procedure carried out in accordance with the Bank Rules. The Initial Report has already been approved by the Committee of Technical Experts (established by the Government of the Republic of Macedonia with a task to monitor the preparation of the studies: Study for the personnel and reduction of the costs, Study for privatization of the transport enterprise, Study for public passenger service and Study for payment for the access to the route; gives instructions and guidelines to the consultants in the course of preparation of the studies and approved the reports prepared by the consultants). This study should be completed by the end of 2007.

After the division and the establishment of the two new companies, and in absence of the results from the Study for establishing a charge for access to the railway infrastructure, the infrastructure manager made a decision for establishing a charge for access to the railway infrastructure, and the Government of the Republic of Macedonia, at a proposal by the Minister of Transport and Communications, in accordance with Article 42, paragraph 2 from the Law on Railways ("Official Gazette of the Republic of Macedonia" Nos. 64/05 and 24/07) gave its consent for the decision made by the infrastructure manager.

This decision shall be applied until a system for calculation and payment of the charge is developed, that is, until the final report of the study is received. A system for calculation and payment of the charge will be developed by the first half of 2008. In accordance with the Law on Railways ("Official Gazette of the Republic of Macedonia" Nos. 64/05 and 24/07) this charge is defined and the payment collected by the infrastructure manager, in accordance with criteria for defining the level of the charge and they have to be equal and non-discriminatory for each transport operator. The level of the charge shall be established on the basis of realized kilometers by the train, the composition of the train, train weight, train speed, axle load, the time for usage of the infrastructure and other special requirements.

Liberalisation of the railway market: With the World Bank loan, a procedure is undergoing for choosing a consultant house for preparation of a Study for privatization of the transport company. According to the World Bank rules, the first phase of pre-qualification is finished. Out of the 23 companies that showed interest, a "short list" of 6 companies was submitted to the World Bank for approval. After this list is approved by the World Bank, the complete tender documentation shall be submitted to the pre-selected companies, so as they can submit their own offers. According to the foreseen dynamics, a contract is expected to be signed with the chosen consultant in November 2007, whereby the engagement of the consultant shall be 14 months after signing the contract.

The Study for Privatisation of the Transport Company covers a preparation of the tender documentation and leading the whole procedure related to the sale of this company

Solving the debt status of the two new companies: According to the plan for division of capital, means, rights and

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<sup>18</sup> Priority of the Accession Partnership Chapter 14 Transport policy- "In the rail sector, establish a regulatory body that is independent of the infrastructure manager and railway undertakings, establish a safety authority responsible for issuing safety certificates and align legislation with the EU rules on transport of dangerous goods by rail. Ensure financial stability by compensating for public service obligations in passenger transport and reducing debts."

obligations of the employees at the Public Enterprise "Macedonian Railways" C.O.-Skopje (Announced in the Official Gazette of the Republic of Macedonia No. 58/07), the total debt of the former PE Macedonian Railways is 116.524.222,41 Euros. The debt of the Public Enterprise Infrastructure Macedonian Railways is 55.199.117,85 Euros, whereby the debt of the Macedonian Railways Transport A. D. Skopje is 111.325.104,46 Euros.

Table 20: Planned investments

Ordinal number	Description	2008 Million Denars	2009 Million Denars	2010 Million Denars	2011 Million Denars	2012 Million Denars
1	Investment	322.39	478.71	508.01	518.23	562.59
2	Regular and investment maintenance	256,91	48,91	45,61	43,55	38,30
3.	<b>TOTAL(1+2)</b>	<b>579.30</b>	<b>527.62</b>	<b>553.62</b>	<b>561.78</b>	<b>600.89</b>
4.	<b>TOTAL(1+2) (mil. euros)</b>	<b>9.41</b>	<b>8.57</b>	<b>9.00</b>	<b>9.13</b>	<b>9.77</b>
	<b>Pre-accession IPA funds (mil. euros)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7.8</b>	<b>7.8</b>

Source: Ministry of Transport and Communications

The Government of the Republic of Macedonia, at the session held in September 2007, upon a proposal of the Ministry of Finance solved the status of the part of the obligations of the Macedonian Railways Transport A. D. Skopje and of the Public Enterprise Infrastructure Macedonian Railways –Skopje.

For the Macedonian Railways Transport A. D. Skopje, from the total amount of 111.325.104,46 Euros, the Government of the Republic of Macedonia shall convert part of the loan amounting to 86.717.807 Euros, whereby the rest of 24.608.386 Euros shall stay under obligation of Macedonian Railways Transport A. D. Skopje or in percentage it means that 78% from the debts of the debts shall be converted as an investment of the State into the Enterprise.

Regarding the Public Enterprise Infrastructure Macedonian Railways-Skopje, from the total amount of 55.199.117,85 Euros the Government of the Republic of Macedonia shall convert part in an amount of 41.846.121,08 Euros, whereby the rest of 13.352.996 Euros shall stay as an obligation of the Public Enterprise Infrastructure Macedonian Railways-Skopje, or in percentage it means that 75% of the debt shall be converted as investment of the state in the Enterprise.

From the total debt of the former Public Enterprise "Macedonian Railways" C.O.-Skopje the Government of the Republic of Macedonia shall convert part in an amount of 128.563.928 Euros or in percentage it means that 77% of the debts shall be converted as an investment of the State into the two enterprises.

#### **Financing of the railway infrastructure:**

Pursuant to article 48 from the Law on Railways (Official Gazette of the Republic of Macedonia No. 64/05 and 24/07), the Government of the Republic of Macedonia upon a proposal of the Ministry of Transport and Communications brought the National Programme for Railway Infrastructure for the period 2008-2012 and it was submitted to the Assembly of the Republic of Macedonia for its adoption.

After the adoption of the Budget of the Republic of Macedonia for 2008, the financing of the railway infrastructure is realized according to the Annual Plan, brought by the Government of the Republic of Macedonia, upon a proposal of the Minister of transport and Communications.

Development of the railway infrastructure, in the future, will be focused on realization of projects that belong to the Pan European railway corridors passing through the territory of Republic of Macedonia:

- Corridor 10: Tabanovci-Skopje-Gevgelija;

- Rehabilitation of the railway line Tabanovci- Gevgelija;
- Upgrading safety and telecommunications devices on Tabanovci- Gevgelija;
- Rehabilitation of the railway line Veles-Kremenica (Corridor 10);
- For Corridor 8: Border with Republic of Bulgaria-Skopje-Struga-Border with Republic of Albania Border with R. Bulgaria-Skopje- Struga-Border with R. Albania:
- Completing construction of Kumanovo-Beljakovce-Border with Republic of Bulgaria
- Construction of railway line Kicevo-Struga-Border with R. Albanija; and
- Rehabilitation of the railway line Skopje-Kicevo.

So far, the projects were funded by the state budget, foreign donations, credits and co-financing. According to the EU recommendations, financing will be made by Public Private Partnerships.

### **3.6.3 Air transport**

The Public Enterprise for Airport Services “Makedonija Skopje”, established by the Government of Republic of Macedonia, manages the Skopje and Ohrid airports. There is an ongoing procedure for transformation of the Public Enterprise into a stockholding company with state ownership, which will be designated as the airport infrastructure operator, in accordance with the provisions of the Aviation Act and related regulations. Consequently, the airport services, primarily ground handling and fuel & lubricant supply, will be conceded to trade companies, and the air navigation infrastructure will be the responsibility of the air navigation services provider (ANSP).

Enlargement of the capacities of the Skopje Airport is foreseen, particularly in the terminal building in order to reach the international standards for passenger access, increase the level of services, as well as, create opportunities for development of commercial activities. It is projected that the transfer of passengers will reach nearly 2 million passengers by 2030. The cost of the modernisation will be the subject of a concession agreement. Following an international tender the announcement of a consultant that has been selected that will prepare a study for a concession model for development of both Macedonian international airports, aiming at their expansion and rehabilitation and also increase of service levels up to international standards, in order to maximize the airports' profit and overall competitive position in the region. The consultant is supposed to submit a project proposal specifying a framework for modification and upgrade of passenger and cargo terminals, runway category upgrade, establishment of most suitable institutional models for both airports, financial support options and future investment opportunities strategy.

The Aviation Act (Off.G. of RM 14/06, 34/07) provides for the division of overall responsibilities in the field of aviation between the Ministry of Transport and Communications and the Civil Aviation Agency. The Ministry is responsible for national aviation policy aspects. It implements the aviation policy and the strategic priorities of the Government of the Republic of Macedonia, prepares and enforces aviation-related laws and bylaws, and enforces administrative control over the CAA. The Ministry's competencies are being implemented by its Air Transport Department, established in July 2006.

The CAA is the civil aviation authority in the Republic of Macedonia. It is an independent self-financing state body which covers all regulatory competencies in the field of aviation. It is in charge of aviation safety oversight and regulation through certification, licensing, supervision, issuance of approvals, rulemaking and enforcement of regulations.

The Ministry of Transport and Communications and the Civil Aviation Agency of the Republic of Macedonia will keep working on fulfilling the short term key priorities of the European Partnership for the Republic of Macedonia in respect to further harmonisation of the legislation with the EU legislation, improving the functioning of the internal market by promoting safe, efficient, environmentally sound and user-friendly air transport services.

In accordance with the Aviation Act from 2006, CAA will perform regulatory functions and also continue to provide air navigation services in Macedonian airspace until the separation of the ANSP from the CAA and the consequent creation of a fully state-owned Joint Stock Company that will provide air navigation services.



The future ANSP, envisaged as a fully state-owned Joint Stock Company, will provide air navigation services and flight control inside the limits of separate airspace blocks to ensure safe, regular and efficient air service operation. Air navigation services shall be provided exclusively by the services provider designated by this Act.

Accordingly, the administrative capacity will be significantly strengthened, and the division of tasks between the different organizations with responsibilities in the field of civil aviation will be better defined.

The Republic of Macedonia is still a candidate member of Joint Aviation Authorities (JAA). So far, the following JARs have already been incorporated into our legislation: FCL 1, OPS 1, OPS 3, JAR 145, 22, 23, 25, 26, 27, 29, 34, 36, 39, APU, AWO, E, P, TSO, VLA, VLR, MML/MEL, 1 and GAI-20. The transposition of JAR FCL 3 is underway. The adoption of JARs is a core precondition for full membership status of the Republic of Macedonia into JAA. Therefore, it is expected that after the JAA Fact Finding Mission, the Republic of Macedonia will be approved for membership. The new Aviation Act of the Republic of Macedonia provides the possibility of implementing all other JAA safety requirements by direct reference to the original JAA documents (JARs). With this possibility, the process of implementation of all other JARs will be expedited.

The Republic of Macedonia signed the European Common Aviation Area in Luxembourg. The Regulations of Annex I to the ECAA Agreement shall become a part of the internal legal order of the Republic of Macedonia, and the legal basis for their implementation is provided by the new Aviation Act of the Republic of Macedonia<sup>19</sup>.

Concerning the provision of regulation of air services tariffs, the Republic of Macedonia does not have this regulation; however it is contained in the bilateral agreements on scheduled air services between the Republic of Macedonia and other countries.

With respect to the liberalisation of the air traffic tariffs, and in practice the overall policy regarding this issue is liberal.

As for the charter flights tariffs, the Republic of Macedonia policy is that this kind of air traffic is considered as an agreement between the airline and the customer, as per the Montreal Convention of 1999, of which the Republic of Macedonia is a signatory. Neither the conditions of application nor the fares can be covered by law.

In accordance with the imminent Law on Contractual and Basic Material Legal Relations in Aviation of the Republic of Macedonia, the Council Regulation 2409/92 EEC of 23 July 1992 on Fares and Rates for Air Services shall be implemented, and also the following: 31997R2027 (as amended by 32002R0889); 32004R0261, 31989R2299 (as amended by 31993R3089 and 31999R0323) and 32006R1107. The Law on Obligations in Aviation will also provide basis for practical application of the international agreements of private-law related nature, of which the Republic of Macedonia is a signatory.

All the abovementioned tendencies and priorities are being continuously shaped and/or modified in accordance with the national strategic priorities in the field of aviation. The supreme general framework has been determined by the recently adopted national aviation policy, which follows the common and particular objectives defined by the ECAA Agreement. This policy has served as a primary basis in drafting the National Aviation Development Strategy, adopted by the Government of the RM on 31 Jul 2007. The strategy is a comprehensive reference for the high-level strategic goals and objectives of the Republic of Macedonia in the field of aviation. It provides guidelines for modernization and optimization of the organizational structure of the national aviation sector, compliance with international safety and security standards, improvement of aeronautical infrastructure, environmental sustainability under traffic and transportation growth conditions, "Single European Sky"-based airspace management, liberalization of air transport services, consumer protection etc.

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<sup>19</sup> Accession Partnership priority, Chapter 14 – Transport policy: "Implement commitments taken under the first transitional phase of the European Common Aviation Area Agreement including the implementation of the relevant aviation legislation"

### 3.6.4 Electronic communications

The application of the Information and Communications Technologies (ICT) directly encourages productivity increase, which constitutes a prerequisite for GDP growth. At an EU level, 25% of the GDP growth and 40% of the productivity growth is a result of the ICT usage. The differences in economic performances among the countries are largely caused by the level of investments in ICT research, development and usage.

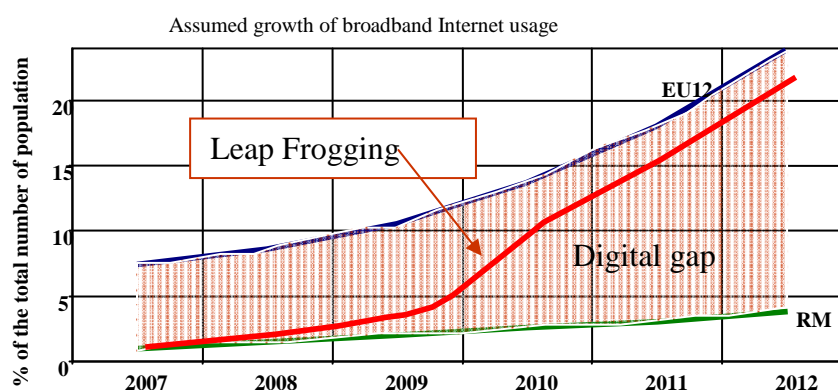
The policy of the Government of the Republic of Macedonia in the electronic communications sector is directed towards supporting the development and process of liberalization of the electronic communications, services accessible to each person offered by cost-based prices, mass broadband Internet usage, resulting into a digital gap reduction, increased economic development and strengthening of the market business model in the Republic of Macedonia.

The competition development and the entry of new operators shall establish the necessary infrastructure so as to provide for efficient, quality, safe and timely delivery of digital content and services of the Information Society. The sustainable economic development is a benefit from the information society development, and concurrently, the instigator to the process itself. It also represents an important aspect in the early phases of creation of the critical mass of interested participants dedicated to the Information Society development in the Republic of Macedonia.

Although, the Law on Electronic Communications was adopted in 2005 (which is completely harmonized with the EU Directives), due to several reasons, as well as due to the lack of transparent policy for development in this economic sector, the Republic of Macedonia compared to the European Union countries is still behind in terms of liberalization and investments in the electronic communications. The digital gap, within the country, as well as compared to the EU countries, is ascending.

In order to prevent for further digital gap increase, the Government of the Republic of Macedonia is firmly determined to provide conditions for fast economy development, so as to achieve the economy development level as in the new EU member states, and to include the Republic of Macedonia in the global networked economy.

Chart 12: Assumed growth of broad band Internet usage



The need of the Republic of Macedonia to achieve as soon as possible significant leap frogging in the ICT development sector asks for review and application of new innovative solutions, thus creating conditions for achieving the foreseen leap.

Because of the previously stated, the Government of the Republic of Macedonia adopted the National Strategy for Development of Electronic Communications with Information Technologies (NSECIT), which contains new innovative solutions and measures. The efficient, effective and proactive implementation of those measures should provide for fast development of the ICT sector.

The Government of the Republic of Macedonia, through the National Strategy for Development of Electronic Communications with Information Technologies, clearly defines the strategic European orientation – knowledge-based society development (Information Society), i.e. digital economy development.

National Strategy for Development of Electronic Communications with Information Technologies:

*VISION: The Republic of Macedonia – an advanced Information Society.*

*MISSION: Enabling aggressive introduction and massively and efficient use of electronic communications and information technologies that will contribute to make the Republic of Macedonia a part of the global networked economy and to achieve a significant leap frogging in the economy.*

*OBJECTIVES: Measured against all most important ICT indicators, the Republic of Macedonia should achieve:*

- *80% of the average of the new EU member countries in 2010*
- *90% of the average of the new EU member countries in 2012*

The measures defined in the strategy are fully based on the priorities of i2010 initiative of the European Union i2010, and the same could be classified in three pillars: creation of a single information space with open and competitive market of offers for access to electronic communications services and digital contents, promotion of ICT development as motive power for digital society development, and creation of inclusive information society through overcoming of the digital gap.

While creating the NSECIT, the proactive implementation of measures through multi-partner approach was taken into consideration, i.e. all information society concerned parties participated in an active and coordinated manner, while making sure that the measures are consistent and non-isolated with the other policies and activities that deal with the Information Society development in the country. Due to the previously mentioned, the National Strategy for Development of Information Society with Information Technologies, and the adopted National Strategy for Information Society Development in the Republic of Macedonia, constitute a single concept that establishes the directions for creation of the new digital environment, i.e. they shall create a proactive ambient for creation and development of the new digital economy and digital gap reduction as regards both levels (information access level being bridged through ICT infrastructure accessibility and Information Society service level).

For the purposes of achieving the expected leap frogging in the ICT sector, all NSECIT measures are foreseen to be implemented till the beginning of 2010.

In order to efficiently implement the measured defined in the strategy, and with an objective to provide for leap frogging for the purposes of overcoming the digital gap, it is foreseen that the government shall establish a new body – a National Council for Development of Information Society, which will consist of representatives of the public, private, NGO sector, as well as from the universities. The National Council is basically a body intended for coordination and provision of participation (kind of a forum) of all information society development actors, supported by the Ministry responsible for information society development. Hence, the National Council is not a body that makes decisions, but a body that proposes them.

One of the priorities of the Government of the Republic of Macedonia is investment in research in the ICT sector for promotion of the economic growth and increasing of the number and quality of employment. Therefore, it is necessary to provide financial assistance, for which the best model is the creation of a Fund for Information Society Development by the Government of the Republic of Macedonia. The government shall allocate, annually, funds from the Budget of the Republic of Macedonia for this fund, thus allowing for re-investment of the paid funds from the tax-payers, especially of the telecommunication companies, for the development of this sector.

The decisions of the regulatory bodies in charge of development of the Information Society and media have direct impact on the development of the liberalization and competition of the market, due to which, it is crucial to respect the independence of the regulator. The institutional capacity strengthening of the regulators should be

provided on a continuous basis. The coordination between the state agencies in terms of implementation of laws, as well as for monitoring of the market movements is of utmost importance, and its provision should be on a continuous basis.

The ICT indicators monitoring should be provided on a continuous basis. Therefore, the Government of the Republic of Macedonia shall make additional efforts aimed towards capacity strengthening of the state institutions, especially of the State Statistical Office.

The development of the market of electronic communications directly depends on the efficiency and effectiveness of the judicial system, having in mind, in particular, the specific aspects and the dynamics of the regulation of this market. Therefore, it is necessary to strengthen the capacities of the judicial system in the Republic of Macedonia on a continuous basis.

The Government of Republic of Macedonia is making efforts to implement a change of institutional character, which refers to the merger of the regulatory bodies for electronic communications, broadcasting and posts. This merger is with an objective to provide for conditions so as to fully implement the existing convergence in the regulation, i.e. the technological convergence between the electronic communications and the broadcasting. The basic principle of guaranteed independence of the new regulator, according to the Government of the Republic of Macedonia, must be taken into account.

The state agencies should maintain an active role in the process of establishment of an Information Society in the Republic of Macedonia. Therefore, the process of strengthening of their respective institutional capacities shall be fully supported by the Government of the Republic of Macedonia.

Within the frames of the process of EU accession, the state agencies of the Republic of Macedonia should be integrated in the European organizations, thus being able to take advantage of all potential benefits from the membership or the associate membership in the relevant organizations in charge of the development of electronic communications. The Government of the Republic of Macedonia shall fully support the mentioned processes in future.

### **3.6.5 Post**

The Law on Postal Services is harmonised with the goals and requirements of the EU for introduction of a gradual liberalization of the market for postal services. In a competitive postal market, the performance of postal services as regards the non-reserved postal services is regulated with the law, through issuance of concession to other postal operators, which on the postal market are competitors to the PE "Makedonska posta", the incumbent operator.

The effective competition in the postal sector exists in the part relating to provision of courier services. The Law permits courier services to be performed by national and foreign legal and natural entities as postal operators, based on a license issued by the Minister for Transport and Communications.

Pursuant to the Law on Postal Services, the universal postal service is performed by the incumbent postal operator, PE "Makedonska posta". The universal postal service should be available to all users throughout the territory of the Republic of Macedonia under equal conditions, and it should provide confidentiality and security in the delivery of postal items.

The Law on Postal Services will be adopted in 2007 and will transpose the new Directive 2002/39/EC. The weight of reserved postal service items will be reduced from the current 350 grams. Furthermore, the new Law will establish a special regulatory body<sup>20</sup>; the functions of that body will be carried out by the Ministry of Transport and Communications.

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<sup>20</sup> Priority of the Accession Partnership Chapter 3: Right of establishment and freedom to provide services-" Align with the postal services acquis, including establishment of an independent national regulatory authority".

The Ministry of Transport and Communications implements the policy of the Government of the Republic of Macedonia in the field of national and international traffic. It also proposes to the government measures for gradual and controlled liberalization of the postal services; monitors and analyses all aspects of the universal postal service and the other postal services; and proposes undertaking of appropriate measures; controls the use of approved tariffs for the universal postal service; supervises and controls the enforcement of this Law, regulations or international agreements; determines the strategy for postal services development, including steps to introduction competition; as well as other issues determined with the Law on Postal Services.

For the purposes of liberalisation of the postal sector, the Public Enterprise for Postal Traffic “Makedonska posta” restructuring into a Shareholding Company with state ownership.

### **3.7 Administration reforms**

#### **3.7.1 Institutional improvement of the administration structures and strengthening of the administration capacities**

The Law on the Government of the Republic of Macedonia determines the organisation and the manner of performance, as well as the competence of the Government of the Republic of Macedonia. By the amendments to this law in 2007, with reference to matters relating to the implementation of the Framework Agreement and ensuring coordination of authorities in that area, the Secretariat for Implementation of the Framework Agreement was set up.

With a view to creating a legal basis and institutional and material conditions for realisation of the public administration reform, the government in the course of the period 2006-2007 adopted a succession of acts such as the following: Amending the Rules of Procedure of the government with a view to establishing an Audit Committee as a permanent professional government body which will analyse the audit reports regarding the Budget of the Republic of Macedonia<sup>21</sup>, the ministries and other authorities on measures undertaken for elimination of the irregularities defined in the State Audit Office's reports; the Regulation on Job Descriptions of Civil Servants defining the job descriptions of civil servants, including their competences and targets, their main working duties and liabilities; the Regulation on Internal Organisation of Authorities, defining the principles of organisation of authorities, as well as the organisational units that may be set up therein, with a view to establishing unified standards regarding the internal organisation of authorities and envisaging a liability for establishment of separate units for management of human resources, units for internal audit and units for strategic planning, policy creation and monitoring within the ministries (all bodies employing civil servants, including municipality administration should apply this regulation); The Decision on Defining Strategic Priorities of the Government for 2008; the Annual Performance Programme of the Government for 2007; the Declaration on Suitable and Equitable Representation signed by all ministers and heads of other administrative bodies, the Strategy on Cooperation of the Government with the Civil Sector (2007-2011) with an Action Plan on Implementation; the Strategy on Communication with the Public Regarding the Principle on Suitable and Equitable Representation; the National Employment Plan on Suitable and Equitable Representation; the Programme on Organising and Conducting Trainings Relating to Strategic Planning for the civil servants of the ministries and other authorities in 2007; recommendations for transparent criteria and procedures on state funding of NGOs.

Continuing its activities on creation of a modern civil service, the Civil Servants Agency on 27 September 2007 adopted a document presenting the Policies on Attracting and Preserving Young and Highly Educated Employees in the Civil Service.

The CSA in accordance with the National System on Coordination of the Professional Training of Civil Servants in the Republic of Macedonia, which defines the basic postulates of the training policy, the separation of roles of CSA and each body employing civil servants, as well as the coordination structures, the model of funding and the

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<sup>21</sup> Accession Partnership Priority, Chapter 32 – Financial Control: “Enhance the operational and financial independence of the State Audit Office and ensure follow-up to the findings in its reports”

solution to the issue of providing trainings, carried out specific activities relating to institutionalisation of the training support, by establishment of training support units. Such a unit already exists in Bitola and the activities for the Unit providing support to the training of civil servants in Skopje to start with its performance is underway. As a permanent obligation CSA prepared an Analysis of the Evaluation of Civil Servants in 2006 with a focus on the normative framework relating to the evaluation procedure, the activities undertaken by the CSA as an active participant in the process, the actual status, based on separate evaluation reports and conclusions with proposed measures aimed at qualitative and quantitative improvement of the evaluation in the future.

The Government of the Republic of Macedonia in that period carried out a part of the activities and measures which need to be undertaken in the future arising from the information on the progress made and the further priorities of the public administration reform by means of drawing up recommendations for further steps with reference to the separation of the non-core state functions by the Ministry of Justice in cooperation with the Ministry of Economy and the Ministry of Finance; A Guide for Macedonian Institutions is being prepared; a Draft-version of the Code of Ethics of the Members of the Government of the Republic of Macedonia was drawn up; activities, aimed at accomplishment of suitable and equitable representation of community members in the authorities where it had not been accomplished, were undertaken.

The ministries and other authorities are successfully completing the third cycle of strategic planning and they have prepared three-year strategic plans based on a new matrix, identifying their strategic priorities and goals, as well as the planned measures and activities for realisation of the strategic priorities of the Government and of the priority ministries. The new matrix which was prepared to enable simplification of the preparation of plans primarily ensures direct connection of the envisaged with the strategic priorities of the Government, NPAA, as well as with the priorities and goals of the body. These strategic plans also include the measures necessary for restructuring of the body, the principle of equitable representation, the common functions, as well as the need for training of human resources. With a view to building the strategic planning capacities the Secretariat General of the Government conducted a succession of strategic planning trainings (generic and specialised) for civil servants employed in the ministries and authorities.

The consistent application and development of already established systems on strategic planning and analysis of coordination policies will continue, as well as the strengthening of strategic planning and policy creation capacities in SG and the ministries by means of continuous strategic planning and policy creation trainings; the system of horizontal coordination will be continuously upgraded, and particular attention will be paid when systems and procedures for vertical coordination are introduced, i.e. strengthening of those functions of the authorities which contribute to their transformation into modern organisations (strategic planning, policy analysis, human resources management, internal control, information technology). The Strategy on Public Administration Reform should be updated and simultaneously the capacities of the Unit for Public Administration Reform for monitoring of the strategy implementation should be strengthened. The civil service system should be promoted by consistent implementation of the Law on Civil Servants and the Code of Ethics for Civil Servants, implementation of employment procedures, analysis of the process of evaluation of civil servants and submission of data regarding employments. The human resources management process should be promoted and measures on promotion of the human resources management should be drawn up by establishment of organisational frameworks for strengthening of the human resources management system and the mechanism on delegation of responsibilities by head civil servants. The general training system should be promoted by drawing up a Programme on Professional Training of Civil Servants at Central Level and establishment of a Unit providing support to the training of civil servants in Skopje. With a view to strengthening the local government capacities, a Training Programme for 2008 should be adopted and implemented.

### **3.7.2 Improvement of the transparency and responsibility of the administration**

One of the key purposes of the public administration reform in the Republic of Macedonia is the administration to become an efficient and transparent service for citizens, business entities and other legal persons, which will enable protection of citizens' rights and a partnership with the civil and business sector. The basic principles on administration actions for realisation of such rights are as follows: equality of citizens, predictability of administration performance, participation of citizens, business entities and all the concerned groups in the creation of government policies as one of the fundamental values of the democratic society. In accordance with

the Law on Organisation and Operation of Authorities, when they draw up laws and other regulations falling under their competences, authorities should consult (public announcement of regulations, public debates) and gather opinions of citizens associations and other legal persons. The Law on Government also encourages participation of citizens in government operation. Institutionally, the following activities aimed at improvement of administration transparency were organised:

A Civil Journal – an innovative and efficient tool for improvement of the public service and combat against bureaucracy and corruption was introduced.

The services of the portal were improved and enriched by content from the Civil Journal and information and data on seven additional bodies (Youth and Sports Agency, Emigration Agency, Development and Investment Agency, State Authority for Geodetic Works, State Statistical Office, Public Revenue Office and Customs Administration of the Republic of Macedonia); a messenger service for direct access to the responsible persons for each request by the citizens was set up; a contact centre for citizens who do not have internet access was set up; information centres/call centres in the ministries and authorities and other institutions were set up,

- A Strategy on Government Cooperation with the Civil Sector was adopted
- A catalogue of the authorities and the services they provide to the citizens is being prepared by the Ministry of Justice in cooperation with the Secretariat General of the Government and the Secretariat for European Affairs and connection of the information included in the catalogue with the [www.uslugi.gov.mk](http://www.uslugi.gov.mk) service portal
- In order the Secretariat for Implementation of the Framework Agreement to be more transparent and more available to the citizens its logo and web site [www.siofa.gov.mk](http://www.siofa.gov.mk) were created and promoted (in three languages: Macedonian, Albanian and English), i.e. A STEP FORWARD ... “
- The capacities and resources for implementation of the Law on Administrative Inspection were strengthened
- Bylaws regarding the Law on Free Access to Public Information were adopted
- A campaign was conducted relating to the Law on Dispute Procedure, the Law on Execution and the Law on Mediation.

A continuous effort is made to increase the awareness of the public regarding the Ombudsman as a potential mechanism who acts upon requests concerning corruption of the public administration and a mechanism providing information to the government by quarterly reports on the actions undertaken by authorities upon ombudsman's cases was launched whereby the cooperation between the authorities and the Ombudsman is promoted.

In order to ensure efficient implementation of the Code of Ethics for Civil Servants, the Code of Ethics was amended and in April 2007, a Code Amending the Code of Ethics for Civil Servants was adopted (Official Gazette of RM No. 48/07). The amendment refers to the introduction of an obligation for civil servants to report suspicions or evidence of corruption and breach of the principles on which the Code of Ethics is based; an initial draft-version of the Code of Ethics for members of the Government of the Republic of Macedonia and other elected and appointed persons, holders of public functions in the Government of the Republic of Macedonia was drawn up; activities on a Project for preparation of an interactive multimedia material (a CD-Rom), regarding a wide range of issues relating to integrity, corruption and ethics in the public sector, were initiated.

The adoption and implementation of rulebooks and other acts of local government units in accordance with the Law on Civil Servants, as well as the supervision of the law enforcement constitute efforts leading to establishment of transparent and responsible local administrations and development of internal controls and audits in the management of decentralised funds. Therefore in 2006 a five-year training strategy was adopted based whereon the trainings are being conducted.

In order to promote the supervisory function of the state in the course of the period 2007-2008 an Analysis of the Implementation of the Supervisory Function of Inspection Offices in the Republic of Macedonia is to be made and strengthening of the inspection offices is envisaged.

### **3.7.3 Implementation of the Strategy on Government Cooperation with the Civil Sector**

Before the Strategy on Government Cooperation with the Civil Sector (2007-2011) and its Action Implementation Plan were adopted by the Government of the Republic of Macedonia, six public debates on the Concept and the Draft-Strategy on Government Cooperation with the Civil Sector were organised, wherein 400 citizen associations and foundations participated.

For the purpose of its unimpeded implementation in the period 2007-2008 by amendments to the Law on Citizens Associations and Foundations and adoption of bylaws, as well as by implementation, promotion and adherence to the adopted decisions, the goal of upgrading the legal framework is accomplished, whereby participation of the civil sector in the policy creation and decision-making processes, as well as its involvement in the EU integration processes will be ensured. The provision of a functional network for communication and coordination of the activities relating to the civil sector development and promotion of efficient cooperation therewith should ensure the interinstitutional and intersectoral cooperation.

By improvement of the framework for direct state funding and creation of favourable tax and fiscal support framework, conditions for financial sustainability of the civil sector are to be created and we should also focus on motivating philanthropy and encouraging voluntary work, thus continuously promoting the civil sector development, particularly outside the capital city and the rural areas. A segment of the measures for creating conditions for financial sustainability of the civil sector is the Code of Good Practices for Financial Support of Citizens Associations and Foundations adopted by the government in October this year.

### **3.7.4 Economic area**

The progress made in the area of redefining the state function in the past period was realised by a group of activities: separation of the non-core functions from the government and transfer thereof to the private sector; restructuring and privatisation by introduction of market elements in the public sector operation; more efficient accomplishment of the regulatory function of the state and deconcentration of the state competences. The redefining of the state function is also realised by introduction of market elements in the public sector operation, whereby the state refrains from direct provision of services (through their privatisation) and undertakes the role of a market regulator.

The priority activities in the area of redefining the state function were aimed at strengthening the legal security of economic entities and acceleration of legal procedures by a judiciary system reform, i.e. ensuring continuous implementation of the strategy and action plan on judiciary reform and ensuring independent and efficient judiciary; introduction of an information system in institutions involved in the implementation of the one-stop-shop system and full implementation of the Law on One-Stop-Shop System and keeping a commercial register and a register of other legal persons, continuation of the process of separating non-core functions (divesting) in areas such as homes for the elderly and student homes and constant communication of the undertaken activities with recommendations for future steps regarding the separation; continuous introduction of market elements in the public sector operation.

#### **Public finances**

Continuous activities aimed at developing efficient systems for management, control and audit necessary for implementation of the in accordance with the pre-accession EU instruments under the conditions of decentralised implementation such as staffing and conclusion of contracts within the Unit for Central Financing within the Ministry of Finance, staffing of the Unit for Management of EU Funds, setting up of functionally independent units for internal audit in the central government institutions and at municipality level<sup>22</sup> to strengthen the coordination role of the Ministry of Finance and to provide adequate staff, training and equipment. 32 units for internal audit at central level with 53 internal auditors of the envisaged 88 units have been set up so far, whereas

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<sup>22</sup> Accession Partnership Priority, Chapter 32 – Financial control: “Complete the establishment of internal audit units in central state institutions, create similar units at municipal level where appropriate and ensure adequate staff, training and equipment.



out of the planned 42 municipalities with a population number exceeding 15, 000 27 units for internal audit were set up with 24 trained internal auditors. A Payment Agency for Rural Development was also set up within the Ministry of Agriculture, Forestry and Water-Economy and basic rulebooks and procedures were drawn up for that Agency. For those purpose activities for procurement of an integrated software solution to provide support to the treasury system, aimed at direct connection of the budget beneficiaries, funds and local government units with the treasury are underway.

The budget process reforms commenced by introduction of the budget concept aimed at providing completeness and enabling the government and the assembly of the Republic of Macedonia to decide on the basis of integrated information regarding the activities of government institutions. Budget reforms were carried on by further development of budget and introduction of sub reflecting the main activities of budget beneficiaries, introduction of maximum amounts of approved funds and information regarding the amounts thereof by the budget circular to the functional areas holders. In line with the reforms in this area budget classification as a basis for identification, monitoring and analysis of the appropriate utilisation of budget funds are in operation.

Activities in the area of public finances which are to be undertaken in the forthcoming period

### 3.7.5 Quality of Public Finances

Intention of the Government of the Republic of Macedonia to conduct continuous disciplined fiscal policy, paying special attention to greater achievement of capital investments. It will be fully in line with the Maastricht criteria, due to the need to approximate the policies to the EU standards.

Reforms to be implemented and intensified in this segment are the following:

- increase of fiscal responsibility, accountability and transparency;
- promotion of the budget process, by improving further the budget planning and execution;
- full harmonisation of the definitions and their consistency with the broader internationally accepted methodologies on fiscal planning and reporting;
- better coordination between the central and the local authorities.

#### Budget process reforms

Main reasons for the proposed modifications and amendments to the Budget Law arose from the need to further harmonise the legal regulations in the area of budget operations with the EU regulations, governing this issue. Existing Budget Law is based on most of the main objectives and principles in budget management, however what remains is the obligation to apply all principles on which the budgets of the EU member states, i.e. candidate countries, are based. Therefore, proposed modifications and amendments to the Budget Law fully cover the objectives and the principles of a contemporary budget. Modifications and amendments to the Budget Law also define adequate terminology and set the procedures under which the Budget Law becomes **an instrument that enables multi-annual budgeting**, i.e. consistent realisation of the development-aimed goal of the budget.

Defining the provisions that regulate budget planning and execution is made in line with Council Regulation (EC, Euratom) no. 1605/2002 and Council Regulation (EC, Euratom) no. 1995/2006 on the Financial Regulation applicable to the general budget of the European Communities, providing the legal framework for application of basic principles when executing the budgets (unity, specification, budget equilibrium, economy, efficiency, effectiveness, transparency and sound financial management), i.e. the principles on which the budgets of the EU member states and the candidate countries are based.

At the same time, modifications and amendments to the Budget Law also propose contemporary procedure for budget funds management providing, for the first time, the possibility for the budget users, should they not use the appropriations under the and sub- in the development section of the budget in the current year, to be able to shift these funds up to 50% as appropriations in the next fiscal year. Such measure will provide for increased spending of public expenditures, **in particular capital investments**, which showed negative results in 2007.

In line with the above-mentioned, this Law also proposes amendment to the contents of the Budget of the Republic of Macedonia, which comprises general, special and development section. **Development section** of the budget presents medium-term plans for the budget users' intended for development-aimed investments approved by the Government of the Republic of Macedonia.

The proposed Law also introduces **changes in the budget process**, i.e. in the stages of preparation and harmonisation of the draft budget. Budget preparation process introduces a new stage – preparation of development programme plans, representing **medium-term review** of the programs intended for development-aimed investments, prepared by the budget users at executive power level and the Funds. Budget users at executive power level, after having received the budget circular, prepared draft plan for development and submit it to the Government of the Republic of Macedonia. Government of the Republic of Macedonia decides upon the proposals for development programme plans of the budget users at executive power level and the Funds, **in line with its strategic priorities** and produces a list of approved development programme plans, submitted to all budget users at executive power level and the Funds. Budget users at executive power level and the Funds submit the approved development programme plan, as an integral part of their budget request, to the Ministry of Finance.

Novelty being introduced with the proposed modifications and amendments is also the procedure for negotiating/harmonising the budget request between the head of the budget user and the Ministry of Finance, as well as the obligation of the Minister of Finance to inform the Government of the Republic of Macedonia, when submitting the draft budget, on the disagreed budget requests.

In addition, draft Law on Modifications and Amendments to the Budget Law, in the Budget Execution Section, introduces several essential changes to the existing provisions in the Budget Law, aimed at the necessary harmonisation with the European acquis, as well as detailed clarification and amendment to the existing legal provisions. This section also contains modification to the Law, with a provision pursuant to which the Budget of the Republic of Macedonia is executed under a special law adopted by the Parliament of the Republic of Macedonia.

The modification mentioned is actually a legal standardization to the practice so far, for special law to be adopted for the execution of the Budget of the Republic of Macedonia. Provisions governing the functions of the Treasury contain modifications that **extend the Treasury competence**, aimed at creating legal basis for the following: debiting the account within the Treasury Ledger on the basis of contractual authorisations and in case of correction of an error by the treasury, liquidity management regarding the accounts within the Treasury Ledger, as well as stopping the execution of certain payments of the central government budget users and the spending units in case of detected undermining of the financial discipline and in conditions of deterioration in the projected liquidity in the treasury account. These modifications are carried out as a result of the observations made in the so-far practice since the establishment of the Treasury (2002), and they are aimed at enabling greater efficiency of the Treasury.

Regarding the submission of the budget final statements, there is an amendment so as to make more precise the existing legal provision in terms of **regulating the obligation for submission of final statement of the Budget of the Republic of Macedonia to the Government of the Republic of Macedonia**, having the report by the authorised state auditor on the audit carried out over the basic budget as attachment. This is proposed due to the fact that the proposed legal obligation is applicable only from the point of view of the scope and deadlines for performing an audit.

At the same time, when preparing the modifications and amendments to the Budget Law, recommendations by the State Audit Office have been taken into consideration so as to introduce more efficient procedures for management of budget funds.

### **Tax Reforms**

In 2008, it is envisaged to continue the reforms aimed at harmonisation of our tax system with the EU acquis, improvement of the business climate so as to attract foreign investments and job creation, efficient determining and collecting tax revenues, as well as combat against tax frauds.

Pursuant to the Law on Personal Income Tax, starting 1<sup>st</sup> January 2008, it is envisaged to tax interest on time deposits. This Law also envisages, for the purpose of conducting more efficient procedure for taxation in all cases of non-reported revenues, shortening of the stipulated procedure, i.e. for the PRO, when it determines existence of property or resources higher than the ones taxed, to reach a decision, without any delay, for taxation on the basis of the stipulated rate (70%).

Profit Tax Law, for the purpose of harmonisation with the EU Directives, envisages reduction of the types of revenues belonging to the group of revenues tax under the withholding tax.

According to the Stand-By Arrangement concluded between the Government of the Republic of Macedonia and the International Monetary Fund, tax reform framework envisages integrated collection of social contributions starting April 2008, and harmonization of the minimal bases for payment of social contribution by July 2008. In addition, the Arrangement encompasses preparation of Strategy on Base Harmonisation, under which both social contributions and PIT will be calculated. Objective of such reform is to reduce the labour taxes, combat against informal economy, improve business environment, simplify tax burden to the companies and stimulate employment.

Regarding indirect taxation, Law on Excises envisages abolishment of export banderols on cigarettes, thus stimulating the export of these products and facilitating the export procedures. In addition to the existing VAT and customs exemption, excise exemption is also envisaged for the donated passenger vehicles intended for government bodies and public institutions.

New Law on Games of Chance and Entertainment Games is planned to be prepared in 2008, enabling to overcome the problems faced when applying the existing Law, precisely explaining certain conditions during realisation and application, while some provisions will be harmonised with the EU acquis.

To the end of reforming the Public Revenue Office as a tax authority striving for upgrading the level of professionalism and efficiency in its operations, as well as building disciplined and modern tax authority, Law on Public Revenue Office precisely regulates the status of the employees within PRO depending on their competence, specificity of their rights, obligations and responsibilities assigned to them.

Performing certain authorizations by PRO envisaged pursuant to the Law on Tax Procedures should contribute to more efficient enforcement of the laws, which is aimed at meeting the EU membership obligations. Such authorisations encompass exclusion of the complaint procedure and provide for send-instance decision making regarding the right to complaint of the taxpayers.

Envisaged cut of tax rates in 2008 is to be compensated with increase in the efficiency in both PRO and Customs Administration operations. This means better observance of the rules, more efficient collection systems, better implementation of controls and efficient intervention so as to detect and investigate embezzlements. All this will be attained through the planned modernisation and strengthening of the technical base and the institutional capacity of the Customs Administration as well, i.e. assistance in engaging internationally recognised and experienced consulting company in the area of customs operations. As a result, Ministry of Finance, according to the legal procurement procedure, concluded contract with Crown Agents consulting company to prepare Programme on Detailed Expertise and Resources, as support to the Customs Administration in attaining its goals. As a result of the introduction of the sophisticated equipment for X-ray scanning at border crosses, as well as the intensified cooperation between the Customs Administration and the Public Revenue Office in detecting illegal import and tax evasion, in 2008 it is expected to increase efficiency in the collection of both tax and customs revenues.

The Ministry of Finance of the Republic of Macedonia is an institution responsible for preparing financial statements on the performance of revenues and execution of expenditures of the Central Budget of the Republic of Macedonia. In the preparation of these statements, the Ministry of Finance applies the methodology of the Government Statistics Manual (GFSM1986), prepared by the IMF.

In the period June 22 - July 5, 2006, IMF technical mission visited the Ministry of Finance, upon our previous

request to the IMF, so as to assist in the reclassification of financial data on cash basis according to the Government Statistics Manual (GFSM2001), prepared by the IMF. This mission was the first step towards full implementation of the methodology of the Government Statistics Manual (GFSM2001), which is a long-term process requiring adequate resources and a process that would cause changes in the overall public sector accounting system. The implementation of this methodology is significant also from the aspect of its broad consistency with the European System of Accounts (ESA 95), which is not the case with the methodology of the Government Statistics Manual (GFSM1986).

#### **Action Plan for Accepting ESA 95**

The Ministry of Finance of Macedonia currently does not prepare statements under the methodology of the European System of Accounts (ESA 95). So far, the Ministry of Finance has not used technical assistance from the EU on this basis, but it closely cooperates with the State Statistics Office which participated in the Twinning Project covering this area, among other. Last month, representatives from the Ministry of Finance participated in the meetings with representatives from the state statistics offices of the Republic of Macedonia and the Czech Republic, holders of the Twinning Project, and on technical level, considered the outstanding issues on reclassification of financial data based on cash accounting, according to ESA 95 methodology. Full implementation of ESA 95 methodology means shift from cash-based accounting to accrual-based accounting, a process requiring new software, as well as additional training of civil servants involved in these issues.

In addition to this activity, a Project Fiche was prepared on utilization of the resources from the European Funds for improvement of the quality of statistical data. project holder is the State Statistics Office, and the Ministry of Finance and the National Bank of the Republic of Macedonia are beneficiaries of the technical assistance. This is expected to begin at end-2008 after the completion of all procedures and after the final approval of the resources from the European Union.

The project envisages hiring a consultant that would work on the implementation of the methodology of the European System of Accounts (ESA 95), as well as participation in meetings in EUROSTAT, working visits and seminars. The Ministry of Finance expects, as the beneficiary of the technical assistance, together with the consultant that would work in the project period to fully implement the methodology of the European System of Accounts (ESA 95), whereby the government financial statistics of the Republic of Macedonia would be compatible with the other European Union Member States.

The following schedule for accepting ESA 95 is envisaged:

- By the end of 2008 full implementation of GFS 2001
- By the end 2010 full implementation of ESA 95

### **3.7.6 Decentralization and local self government reform**

The local self government reform, including decentralisation, is an important part of the responsibilities that the country has undertaken with the Stabilisation and Association Agreement (2001), the Candidate Status for EU membership (granted in December 2005) and the determination for NATO membership.

The local self-government in the Republic of Macedonia is territorially and administratively organised into 84 municipalities (local self government units) and the City of Skopje as a separate local self government unit with 10 municipalities within its territory.

All municipalities are autonomous in the execution of their constitutionally and legally determined spheres of competence, while the supervision of the legality of their work is within the Central Government's competence. As in the EU member states, municipalities enjoy a general power of competence. The normative activities of the municipalities are realised through the adoption of a Statute and other regulations that have to be published before entering into force. In line with the Council of Europe's Charter of Local Self-Government, the municipalities in Republic of Macedonia have financial autonomy and guaranteed own sources of revenue, including local taxes, 3% of personal income tax, 3% of value added tax, and various (ear-marked, block and capital) grants from the State budget.

The Operational Programme for Decentralisation (the OPD) contained a list of laws related to decentralization and was adopted by the Government in 2003. The Operational Programme for Decentralization included the key laws (on territorial organisation, on finance, on the City of Skopje) and 40 additional laws regulating the actual transfer of competences outlined in Article 22 of the Law on Local Self Government.

Almost all outstanding laws foreseen in the OPDP were adopted by 1 July 2005. The necessary normative and institutional framework already being in place, the actual process of decentralization of the competencies and resources started on 1 July 2005. Local self government units (municipalities and the City of Skopje) started to implement new competences in conditions of new territorial organization of the local self government, newly elected representatives of the local government and new method of local self government financing. The formal transfer of the state owned institutions along with their staff and property was based on the respective laws and governmental decisions and agreements signed in each case by the relevant central administrations and the municipalities. As of the end of February 2007, a total of 521 institutions (primary and secondary schools, homes for elderly people, kindergartens and cultural institutions) and 29 territorial fire fighting units were transferred to the local self-government units. The right to use 22 sport facilities was also transferred. In September 2007, 18 state pupils' homes with 303 employees should be transferred. Regarding the transfer of employees, by the end of February 2007, the local self-government units accepted a total of 486 civil servants and 710 employees in the territorial fire fighting units. Additional 28,475 persons continued to work in the transferred municipal institutions and the institutions of the City of Skopje.

The local self government reform in the Republic of Macedonia is still facing not only the ordinary problems typical for these complex reforms, but also the specific problems of a country in transition. The reform cannot be implemented without taking into account the wider context of the economic situation in the country that still has to be improved.

In general, most trends in relation to the decentralisation process in the Republic of Macedonia are positive, including increased capacity of local administrations and considerable increase of the total revenues managed by municipalities. There is no evidence of any major reduction in the services provided as a result of the decentralisation, although it seems that smaller municipalities (mainly the rural ones) are still facing difficulties in delivering some of the basic services to their citizens, since (although having already schools and primary health institutions) most of them lack institutions and basic infrastructure in the areas of social and child protection, culture, sports and recreation and rescue and protection of citizens and goods. It must be noted that such institutions and basic infrastructure did not exist before the decentralisation process in most of the smaller municipalities hence they could not have been subject of transfer to local level. The formal establishment of inter-municipal cooperation in the areas of revenue collection, urban planning, communal activities and environmental protection has proved to be an effective solution for overcoming the existing difficulties. It is expected that with the implementation of the Law and the Strategy on Balanced Regional Development and especially the provisions of funds from the State budget equivalent to 1% of GDP on annual basis for balanced regional development and reducing disparities, situation will gradually improve. By applying of these and other measures it is expected that by the end of 2010 all municipalities will have institutions and infrastructure necessary for delivering to citizens<sup>23</sup> basic services with acceptable quality and reliability.

However, to a great extent, challenges still exist and after two years of transfer of the competencies and resources the following key issues still deserve further attention:

1. Decrease disparities between municipalities;
2. Ensure appropriate balance among different stakeholders;
3. Ensure an appropriate balance between resource appropriation and spending needs. Municipalities need to have a sufficient resource base to cover the cost of the functions assigned to them;
4. Ensure an appropriate degree of capacity in various fields, on both central and local level;
5. Build partnerships and ensure accountability;

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<sup>23</sup> Accession Partnership Priority, Economic Criteria: "Improve the efficiency of public services, notably by providing additional funds for training and for upgrading the current infrastructure".

Having in mind that decentralization still remains one of the key priorities of the Government of the Republic of Macedonia, a new Programme of Implementation of the Decentralization Process ( 2008 – 2010) has been adopted recently by the Government of the Republic of Macedonia.

In the document are determined objectives, priorities and key measures for the implementation of the decentralization process for the period 2008 – 2010, in the following area;

- transfer of competences and resources,
- fiscal decentralization
- effective communication of the decentralization,
- developing capacity in the municipalities
- facilitating inter – municipal cooperation
- coordination and monitoring and
- Indicators.

The document is appended by a matrix for monitoring its implementation and an action plan will be developed by the end of the current year.

### **3.7.7 Regional policy**

In the period after the constitution of the new Government of the Republic of Macedonia, a working group was established within the Ministry of Local Self-Government to finalise the text of the Law on Balanced Regional Development of the Republic of Macedonia.

The Ministry of Local Self-Government finished the activities relating to the complex regulation of the state policy on balanced regional development which shall give the possibilities and solutions for new development opportunities of our state reflecting all the local self-government units in the Republic of Macedonia.

The above mentioned law was enacted by the parliamentarians in the Assembly of the Republic of Macedonia in May 2007.

The Law on Balanced Regional Development prescribes for the needs of planning the development in our state to establish planning regions at the level of the existing statistical regional - NUTS 3. In addition, the areas with specific development needs will be regulated in a by-law.

The aforementioned law regulates that the regional development policy should be based on the following principles: programming, partnership, co-financing, transparency, subsidiary and sustainability of the development.

In accordance with the law, the new regional development policy will be fundamentally based on the promotion of the polycentric model of development and alleviation of the disparities between the planning regions.

The new regional development policy of the state also have the objective to increase the competitiveness of the planning regions, to preserve the cultural identity of the communities and to support inter municipal, regional and cross-border cooperation.

According to this text, the Ministry of Local Self-Government shall continue to make the regional development policy, in conformity with its competences determined by law. Besides the Ministry of Local Self-Government, whose function is to create the regional policy in the Republic of Macedonia, it is proposed that other entities be included in the regional development of the Republic of Macedonia, i.e.: the National Regional Development Council, Planning Region Development Centre.

The Bureau for Economically Underdeveloped Areas is to be transformed into a Bureau for Regional Development, with a defined task to implement the regional development policy of the Republic of Macedonia.

In view of the regional development planning and programming the text reads that relevant documents are: the Regional Development Strategy of the Republic of Macedonia and the Planning Region Development Programme.

The text of the law also defines the financing sources necessary for the implementation of the measures for balanced regional development and these will be provided from: the Budget of the Republic of Macedonia, budgets of the local self-government units, EU funds, funds from the financial institutions (national or international), donations and other sources. The law also provides that each year 1% of the GDP from the Budget of the Republic of Macedonia shall be earmarked to attaining the objectives of balanced regional development of the country.

The Law on Balanced Regional Development shall become effective on January 2008.

In the meanwhile, measures are taken to prepare the secondary legislation as well to create the relevant structure for balanced regional development in the Republic of Macedonia.

### **Regional Development Strategy**

In December 2006, activities on the preparation of this strategic document were initiated in the Ministry of Local Self-Government.

The Government of the Federal Republic of Germany granted to the Ministry of Local Self-Government consultancy technical assistance for the preparation of the national strategy. The assistance covers the participation of German experts, and later on of national experts in the process of the preparation of the National Strategy for Regional Development.

The National Strategy for Regional Development will represent a fundamental document which will define the long-term objectives and priorities of the state regarding the regional policy.

The Ministry of Local Self-Government is resolute that the National Regional Development Strategy will be prepared and implemented based on the fundamental principles of the regional policy of the European Union (programming, partnership, co-financing, sustainability and equal opportunities for men and women).

Based on the partnership principle, the Ministry of Local Self-Government, supported by the experts from the Federal Republic of Germany, have already implemented initial consultations with all the interested parties in the aspect of the regional policy in our state, such as the ministries and institutions, representatives of the local level of governance, MANU (Macedonian Academy of Science and Arts), representatives of the socio-economic partners at national level and representatives of the non-governmental sector.

In this respect, the opinions and the proposals of the partners will be respected as much as possible both in the phase of preparing the draft strategy and during the different phases of its implementation, monitoring and evaluation.

With the adoption of the National Strategy for Regional Development<sup>24</sup>, the strategic objectives and priorities of our state regarding the regional policy will be determined for a timeframe of ten years. Apart from determining the strategic objectives for a defined period of time, this document will also give the framework for preparing the for development of the planning regions to be determined. Moreover, it is to give direction for the other policies which influence the regional development of our state. The National Strategy for Regional Development is to be prepared by 31 December 2007.

## **3.8 Additional reforms area**

### **3.8.1 Business climate improvement**

#### **Market entry**

The Central Register of the Republic of Macedonia undertook the responsibility for registration as of 4 January 2006 and the registration of legal entities was significantly strengthened since. Today the one-stop-shop system

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<sup>24</sup> Accession Partnership Priority, Chapter 22 – Regional policy: “Finalise the national regional development strategy”

meets the requirements for one application, at one counter and in one visit. There is an exceptional electronic database established for all companies and other legal entities. The Central Register of Macedonia provides accurate information on business partners, it has unified distribution electronic system for registration of all legal entities, it achieves greater budget savings in the non-core overlaps of administrative registries and in general, centralised database for all legal entities and ultimately, it provides a basis for macroeconomic budgeting.

Quantitative data shows that since it first started operating to 31 of October 2007, altogether the **trade register** had received a total of 17289 new registrations, amended 23358 registrations, for deletions are conducted 7692 registrations, 689 are corrections, 6580 are registration of bankruptcy procedure and 1520 are registrations of liquidation procedure, or in total **57128** conducted registrations. There are 1232 foreign persons registered as founders of the trading companies, also there are 293 foreign legal entities registered as founders of the trading companies.

The new amendments to the Law on the One-Stop-Shop System and keeping the trade register and the register of other legal persons are in a parliamentary procedure.

This law provides a four-hour procedure of registering a new company in the Republic of Macedonia. Namely, the possibility was created to greatly reduce the time needed for company registration with the one-stop-shop system in place as a result of improved data exchange within electronic communication between the Public Revenue Office (PRO) and the Central Register of the Republic of Macedonia (CRRM). In particular, the Draft Law results from enabling the shortened period of time (from 20 to 3 hours)

Required for provision of the unique taxation number by PRO to CRRM, and on the basis of data that were previously obtained from CRRM. Consequently, CRRM automatically reduces the time needed to issue a decision for a newly-founded company registration; i.e. the current time needed for this procedure of three working days will be replaced to 4 hours following the moment of full documentation submission.

The second main goal of the Law on the One-Stop-Shop, is the introduction of the General Clause on Business which will enable the precise classification of the trade companies by activities according to the national classification of activities through automatic processing and classification by activities to be performed by the Central Registry of Republic of Macedonia instead of the companies themselves (as it was up to now). Namely, the trade companies will be able to work in every activity, and the CRRM shall perform the automatic processing of data on realised revenues by activities of the company. The Central Register shall annually classify the company (on a special form) in the activity according to the National Classification of Activities in which the company has realised the largest revenue. This means abolishment of the obligation for the companies themselves to change the dominant activity under the threat of sanctions that exists at the moment in the Law on One-Stop-Shop System and of the obligation to keep a trade register and register of other legal entities, in case the largest income is generated in the activity that was not registered as the dominant one.

All of the essential priorities for 2007 were implemented or are in their final phase of implementation. *Special bureaus for technical support by the Central Register* are functioning with an aim to secure free professional assistance to clients in preparation of all legal acts required in the entry procedure, which cost around 200 to 300 EUR so far. Besides accelerating the procedure for registration, the actual costs of the parties reduced to 100 EUR (these 100 EUR cover the compensation laid down towards CRRM and the notary verification of the required documents) for entrance to the CRRM for registration through the one-stop-shop system. The process of establishing and operating a functional internet-distributive system for data of the trade register and the register of other legal persons was completed. The Central Register prepared new project for a mortgage register. Establishing an operative system for electronic submission of annual accounts is in progress. In June 2007, a tender for purchase of information equipment (necessary for new employments in the CRRM) shall be announced. Finally by 2007 inclusive, a tender for introduction of rescue system in case of disasters shall be announced, for which the Central Register is making all preparations (construction works).

Within the overall scope of reforms intended to improve the business environment (structural, institutional and administrative reforms), starting November 2006, the government commenced to implement regulatory reform aimed at improving the regulations quality, and to establish regular dialogue and consultations with the business



community. On 28 November, 2006, with the adoption of a Decision on Introduction of Regulations Guillotine the government commenced the first stage of the regulatory reform, called the Regulatory Guillotine and introduced an institutional mechanism for implementation: a Coordinative Committee, managed by the Deputy President of the Government for Economic Affairs; a Commission for Implementation of the Regulatory Reform represented by the Sector for Economic Policies and Regulatory Guillotine and working groups within the government bodies. The objective of the Regulatory Guillotine is through revision and re-examination of the existing regulations, to simplify and abolish the bureaucratic procedures and formalities (licences, approvals, authorisations, certificates) that are unnecessary, inapplicable and expensive and simply time and resource consuming. Under the project, the regulations and the procedures are expected to be simplified, clarified and cheaper, i.e. business friendly, thus significantly reducing the possibility for bureaucracy and corruption. Around 2000 regulations (laws and bylaws) are subject to revision and re-examination.

The first filter in the re-examination were the competent government bodies that gave proposals for simplification (amending or abolishing), the second filter is the business community and the citizens who face the vague regulations and the complex procedures every day, and the third independent filter is the Sector for Economic Policies and Regulatory Guillotine within the General Secretariat, under the coordination of the Deputy Prime Minister in charge of Economic Affairs.

By October 2007, two sets of proposals prepared by central government unit responsible for reduction of administrative costs and regulatory burden are prepared. The following adopted measures that are based on the proposals from the government bodies, business sector and citizens, have effect on the improvement of the business climate and civil services.

They are divided in six groups:

Implementing statutory time limits (including 'silence is consent' rule, which means that in case an authority does not respond in the statutory time limit determined by law, it will be considered as a positive response):

1. **Ministry of Economy** for licenses for business and tourist related activities,
2. **Ministry of Transport and Communications** for consents for building permits,
3. **Ministry of Agriculture, Forestry and Water Supply** for registration in the fito-sanitary registries,
4. **Ministry of Environment and Spatial Planning** regarding the decision for conditions of planning the space of plan carriers,
5. **Ministry of Culture** for formalities within following laws and by-laws: Law on Macedonian language usage and Law on Cultural Legacy Protection,
6. **Ministry of Labour and Social Policy** for formalities within by-laws of the Law on Social Care,
7. The following ministries are obligated to prepare proposals for reduction of the deadlines for executing inspection supervision and introducing the rule "Silence is consent":
  - a) Ministry of Labour and Social Policy (State Labour Inspectorate),
  - b) Ministry of Health (State Sanitary and Health Inspectorate),
  - c) Ministry of Environment and Spatial Planning (State Inspectorate of Environment),
  - d) Ministry of Agriculture, Forestry and Water Supply (State Agriculture Inspectorate, State Forestry and Hunting Inspectorate, Veterinary Department)
  - e) Ministry of Economy (State Market Inspectorate, State Inspectorate for Technical Inspection)
  - f) Ministry of Justice (State Administrative Inspectorate),
  - g) Ministry of Education and Science (State School Inspectorate),
  - h) Ministry of Finances (State Foreign Exchange Inspectorate),
  - i) Ministry of Transport and Communications (State Inspectorate for Transport, State Inspectorate for Civil Engineering,
  - j) Ministry of Local Self – Government ( State Inspectorate for Local Self – Government)

#### **Reduction of time limits**

1. **Ministry of Finance** for issuing licenses related to insurance.
2. **Ministry of Interior** for issuing travel documents, permits, licenses and requests in the civil sector.

3. **Ministry of Economy** for providing access to information to shareholders and for convoking the Assembly of shareholders from 8 to 3 days – the formality originates from the Law on trade companies.

#### Reduction of documentation

1. Reduction in the number of documents that farmers are obliged to submit to the **Ministry of Agriculture, Forestry and Water Supply** when applying for support through the agricultural programs of the Ministry.
2. **Ministry of Economy:**
  - a) Simplification of the procedure for reporting the working time – the formality originates from the Law on Trade.
  - b) Law on Trade Companies and its simplification in terms of diminishing the obligation of notary verification stated in article 392 paragraph 2.
  - c) Change of article 79 paragraph 2 and article 221 paragraphs 2 and 5 from the Law on Trade Companies in order to eliminate the obligation for delivering documents/warrants verified at notary.

#### Reduction of tariffs and fees

1. The following fees have been eliminated from the **Law on Administrative Fees**: a) 60000 MKD (1000 EUR) for establishing of customs warehouse; b) 30000 MKD (500 EUR) for authorization of customs procedures with economic effect including processing of goods in customs warehouse; c) 30000 MKD (500 EUR) for authorisation for simplification of formalities for transit procedures, for simplification of declaration procedures, for simplification of procedures of local customs clearing and for declaration of the origin of goods; d) 30000 MKD (500 EUR) for authorization for electronic data processing; e) 6000 MKD (100 EUR) for using an identical type of loan for goods during importing procedure for application of standardised system for the export procedure; f) 3000 MKD (50 EUR) for procedures for handling customs warehouse, for storage of domestic goods in customs warehouse, for movement of goods between customs warehouses and for temporary removal of goods from customs warehouse; g) 6000 MKD (100 EUR) for transferring rights and obligations related to customs procedures with economic effect; h) 30000 (500 EUR) for approval of the procedure inventory records in the free economic zones or customs warehouse; and i) 20000 (330 EUR) for carrying out customs supervision in the free economic zones and approval for building or adaptation in the free economic zones.
2. Reduction of fees of the **Bureau for Metrology** by 50 %,
3. Reduction of fees of the **Institute for Standardisation** by 50 % for reviewing and recording technical documentation for importing particular types of goods. This will reduce the highest fee of 195 US \$ to 97.5 US \$ for goods whose import price is above 650 US \$.
4. Reduction of fees of the **Institute for Accreditation** by 50 %,
5. Reduction of tariffs charged by **Ministry of Interior** by 50 % in the civil sector for obtaining driving license, permits and other documents.
6. Reduction of fees of the **Central Registry** starting from 30 % up to 70 % for the services performed,
7. Reduction of fees of the **Fund for National and Regional Roads of the Republic of Macedonia** by 50%, regarding the costs for passengers' motor and attachable vehicles registration,
8. Reduction of tariffs charged by the **Cadastre** by 50% for: 1) Using survey (measuring) data from the real estate cadastre; 2) verification of cadastre documentation; and 3) recording in the real estate cadastre by request of individual and legal entities.
9. Reduction of costs related to **customs** procedures including cancellation of 40 EUR fee for required tariff information and 15 EUR for issuing authorization for TIR.

#### Amending Laws

1. **Ministry of Interior:** a) Changes in the **rulebook** for reporting the place of living and departure from the place of living, changing the address of the place of living, for evidence and for the form of the guestbook in order to enable reporting the place of living and the departure from the place of living by e-mail or by fax; 6) **Law on passports** - abolishing the obligation imposed by the Law on Passports for verifying the parents statements in the Ministry of Interior, for travelling abroad of children younger than 14 years of age. The proposal is that a notary verification will be allowed as the only valid documentation needed and this is also acceptable in the embassies for issuing visas.

2. **Ministry of Education and Science:** Amending the Law on Scientific Research Activity in the part of conditions for founding of scientific institution.
3. **Ministry of Justice:** Amending the Law on Civil Servants in the part of material liability, i.e. introduction of material liability for the damage which is made by the civil servant on individuals or on the state officials in the case of not acting at all or not acting on time.
4. **Ministry of Finance:** It is suggested, the deadlines for decision making of the Securities and Exchange Commission in the Law on Securities to start from the moment when the request will be delivered to the commission, instead from the day when the request will be completed. Introduction of the phrase "when the request is completed" leaves space for manipulation and consciously prolongation of the deadline.
5. Abolishment of the formality for foreign investors to register their FDIs at the **Ministry of Economy**. All data regarding FDIs is being recorded and provided by the National Bank.

#### Abolishment of Laws:

1. Approximate 400 laws and by-laws from the period of the former Yugoslavia which are irrelevant to the current market conditions have been proposed for cancellation.

All regulations that will remain in force will be contained in a Single Electronic Registry of Regulations, for the purpose of transparency and predictability.

The government will adopt a legal framework on introduction of a mechanism for regulatory impact assessment, under which each new regulation will be examined prior to entering government procedure. Its justification and impact on the business sector will be assessed, as well as mandatory consultations with all concerned stakeholders will be conducted. The supervision over the RIA implementation will be carried out by the Sector for Economic Policies and Regulatory Guillotine. Thus, greater transparency and predictability will be provided when preparing new regulations, as well as active involvement of all interested parties through regular and well-structured dialogue with the private sector and the citizens.

### 3.9 Judiciary System Reform

The conducting of reforms in the judiciary system continues with activities aimed at practical implementation of all adopted laws, by showing evident results in strengthening the independence and increasing the judiciary efficiency, which will contribute to efficient realisation of the citizen rights guaranteed by the Constitution.

By the implementation of the Law on Judicial Council the competence in the process of appointing and relieving judges of their duty was redefined and modified, in order to safeguard judicial independence and integrity. The Judicial Council's integrity is guaranteed by the fact that it is composed of judges elected by judges on the immediate and secret elections, held on 15 November 2007 where 8 members of the Judicial Council were elected. The Assembly is expected to elect the remaining 5 members of the Judicial Council (2 of which proposed by the President of RM and 3 proposed by the Assembly Committee) – the public announcement was published in June and the election of new members is expected. However, the Judicial Council operates and decides in its full composition – 8 judges, the President of the Supreme Court and the Minister for Justice. Bylaws falling under the competence of the Judicial Council have been adopted. The Judicial Council on its session held on 7 May 2007 adopted a decision on publishing an announcement for election of 18 judges for the Administrative Court and a decision on publishing an announcement for election of 11 judges for the Court of Appeal in Gostivar.

The Ministry of Justice with the Government of the Republic of Macedonia has undertaken activities for provision of working premises and normal functioning of the Judicial Council within the existing facility which is state-owned and the adaptation of which has been completed.

By the initiation of the implementation of the Law on Courts on 1 January 2007 two new courts were established: The Court of Appeal in Gostivar and an Administrative Court. The reorganisation of the Basic Courts in Skopje was completed; the Basic Court Skopje 1 became a criminal court, whereas the Basic Court Skopje 2 became a civil court. The five specific court units on acting upon cases relating to organised crime and corruption were set up. Most of the bylaws were adopted. With a view to providing suitable infrastructure for accomplishment of the

changes in the court organisation, activities aimed at reconstruction and modernisations of courts were initiated (carrying out construction works and provision of furniture and equipment).

With regard to eliminating of the reasons for great delays in the process of execution of court decisions in civil cases and increasing the judicial efficiency, progress has been made by the implementation of the Law on Execution. Other bylaws have been adopted. A commission in charge of conducting examinations for executors was established and it regularly conducts such examinations. 49 executors have been appointed so far for the areas of the basic courts in the Republic of Macedonia, who already operate and show results. The fourth announcement for appointing of executors is in procedure. In December 2006 a new tariff on rewarding executors was adopted by the Executors Chamber.

The performance of executors and the law enforcement is regularly supervised. In April 2007, the Government of the Republic of Macedonia adopted the Report on Implementation of the Law on Execution. A unified form for executor's reports on monthly activities, regularly submitted to the Ministry of Justice, has been drawn up. Six new civil servants were employed in the Sector for Supervision and Control of Executors and Notaries within the Ministry of Justice.

Regarding the increased court efficiency, the first effects of the implementation of the Law on Dispute Procedure, which started as of 1 January 2006, show positive results in increasing the percentage of resolved cases. The Ministry of Justice, based on the data on the movement of cases obtained from the basic and appellate courts, made an analysis on the duration of the procedure for civil, business and labour cases for the period 1 January – 31 December, 2005 (when the old law was applied) and the period 1 January – 31 December 2006 (when the Law on Dispute Procedure from 2005 was applied) and determined that the percentage of resolved civil cases in the basic courts increased and greater efficiency was achieved in the course of 2006.

The implementation of the Law on Mediation, which came into effect on November 2006, is expected to stimulate extrajudicial resolving of disputes, which would result in decreasing the burden on courts of a large number of cases and a more rapid and more economical citizen approach to the justice and efficient alternative resolving of disputes. On the initial session, on 22 October 2006, the Chamber of Mediators of the Republic of Macedonia was set up. On that session the following documents were adopted: The Statute of the Chamber of Mediators of the Republic of Macedonia and the Code of Ethics and the chamber bodies were elected. They are as follows: President, Management Board, Supervisory Board and Board of Ethics. The election of 60 mediators has been completed so far and the first Mediation Centre has been opened in Skopje. The drawing up of a group of rulebooks which will enable full operability and functioning of the Chamber of Mediators of the Republic of Macedonia and of the Law on Mediation is in its terminal phase.

The implementation of the Law on Offences should enable the leading of criminal procedures and execution of sanctions to be performed by an authority or an organisation and another body with public powers. In that manner a certain type of typically administrative offences will not fall under the competence of courts and the number of unresolved cases in the courts is expected to decrease. Activities on completion and harmonisation of the criminal provisions of a large number of laws with the Law on Offences are underway. The setting up of Commissions on leading of criminal procedures in bodies within authorities (Ministry of Interior, Customs, Commission for Protection of Competition, transport etc.) is in progress.

The Law on Administrative Disputes (Official Gazette of the Republic of Macedonia No. 62 dated 19 May 2006) changed the previous concept administrative acts of the executive authority to be subject of court inspection only by the Supreme Court. An Administrative Court, which is expected to start with its operation in June 2007, and which will decide in administrative disputes upon lawsuits against administrative acts of authorities or organisations and other bodies with public powers was set up, which will decrease the burden of this type of cases on the Supreme Court. This solution will ensure increased effectiveness, efficiency and cost-cutting of procedures upon administrative disputes. For this court to commence with its operation adequate premises and equipment was supplied. A guideline on the manner of taking over cases from the Supreme Court of the Republic of Macedonia was adopted. The Judicial Council on 7 May 2007 adopted a Decision on publishing an announcement for election of 18 judges of the Administrative Court.

Regarding the reforms of the Public Attorney's Office, the Ministry of Justice made an analysis on the state of the Public Attorney's Office, the protection of property rights and the forms of ownership having public and legal nature. Based on the data arising from the analyses a need for staffing of the Public Attorney's Office emerged and as a result 8 new deputies of the Public Attorney were selected and nominated. With the intention of strengthening the system on protection of ownership rights in the Republic of Macedonia a new Law on Public Attorney's Office was adopted, which defines and regulates the legal status of the Public Attorney's Office as an independent state body which is to represent and protect the ownership rights and interests of the Republic of Macedonia.

In line with the further implementation of modern achievements in the notary operations area, in accordance with the European standards regarding the modernisation of civil legislation, a new Law on Notary Operations was adopted on 20 April 2007. The new legislation is intended to improve and enhance the quality of notary operations and the services provided to citizens and other users, strengthening of the legal security, increased supervision and raising notary's responsibility in performance of the notary service.

The Strategy on Judicial System Reform will be completed by the adoption of the Law on Public Prosecutors Council and the Law on Public Prosecutor's Office.

The Law on Public Prosecutors Council will enhance the integrity of the Public Prosecutor's Office by revision of the system on election and termination of office of public prosecutors and revision of the position, procedure, composition and the competences of the body in charge of election and termination of office. Namely, a professional body, Public Prosecutors Council, will be established, which in a specifically defined procedure will perform election and termination of office of public prosecutors.

The adoption of the Law on Public Prosecutor's Office resulted from the need for harmonisation with the constitutional amendments adopted in December 2005 which precisely defined the role and position of the Public Prosecutor in the legal system and stressed the necessity for strengthening the function of the Public Prosecutor in the criminal pursuit. The new Law on Public Prosecutor's Office envisages promotion of the Public Prosecutor's position in the criminal justice system by revision of the Public Prosecutor's Office function in the pre-investigation procedure and the supervision over the police, as well as of the Public Prosecutor's Office powers for pursuit of offenders in the area of organized crime and corruption.

In order to strengthen the capacities in combating organised crime and corruption, the Unit for Pursuit of Offenders in the Area of Organised Crime and Corruption, established in October 2004 within PAORM, in April 2007 employed two new members and it currently includes 9 deputies of the Public Prosecutor, which gave positive results in the performance, particularly in the first months of 2007. The unit uses new premises within PAORM with the necessary furniture and technical equipment (supplied by a USAID project). A training of prosecutors was conducted in The Hague on international humanitarian law. The practical implementation of the CARDS 2005 Twinning Project on Organised Crime and Corruption, conducted by the Public Prosecutor's Office, the Ministry of Justice and the National Bureau on Combating the Mafia in the Republic of Italy, is in progress. On 29 May the PAORM project in collaboration with IOM for establishing specific cooperation of Public Prosecutor's Offices of the Republic of Serbia, Albania and Bosnia and Herzegovina, by signing of bilateral memorandums of cooperation, should be completed.

The emergence of new forms of crime and the organised forms thereof, undisputable imposed the need for comprehensive reform of the criminal and legal system of the Republic of Macedonia. In order to ensure the consistency of the reform, the Ministry of Justice in cooperation with all stakeholders prepared a Strategy on Criminal Law Reform, focusing on the material and procedure legislation. This Strategy was adopted by the Government of the Republic of Macedonia in July 2007. The purpose of the material and criminal law reform imposes modifications in the general and specific part of the Criminal Code. Regarding the weaknesses identified so far, the areas of greatest priority whereon the reform will focus are as follows: confiscation of property and property benefit; criminal liability of legal persons; defining of organised crime; economic criminal deeds; computer criminal deeds; xenophobia and rape; specific identification of the international obligations of the Republic of Macedonia and harmonisation of our criminal legislation with the European and international legislation and standards. The purpose of the procedure criminal legislation reform is strengthening and

enhancing the efficiency of pursuit in serious criminal forms, including organised crime, corruption, financial crime and trafficking in humans, redefining of the role of participants in the criminal procedure, institutional strengthening of PAO, identifying the priorities in leading the criminal procedure, simplification of the regular court procedure and by application of shortened procedures or extrajudicial settlement on the guilt and sentence.

### **Forthcoming Activities**

The forthcoming activities aimed at strengthening the judiciary integrity and improvement of the court function performance will focus on implementation of legal decisions which provide not only integrity, but also responsibility in performing the function, as well as towards business climate improvement.<sup>25</sup>

Establishment and commencement of operation of the new Judicial Council of RM in accordance with the new legal competences

- Completion of the composition of the Judicial Council with members elected by the Assembly of the Republic of Macedonia.
- Extension and equipping of the facility of the Judicial Council of the Republic of Macedonia.

Implementation and application of the new Law on Courts

- Establishment of the Court of Appeal in Gostivar
- Training of judges and court administration regarding the Court Rules of Procedure
- Drawing up a feasibility study and project fiches on construction of a new court facility in Skopje
- Drawing up project fiches on reconstruction and modernisation of 11 courts with extended powers

Training of judges and public prosecutors

- Conducting of initial training for the first generation of judges and public prosecutors in the Training Academy for Judges and Prosecutors (TAJP)
- Completion of the process of staffing of TAJP
- Drawing up and implementation of the strategy on management of the Academy budget
- Conducting analysis on the needs for infrastructure, furniture, computer equipment, services for the Academy and premises for distant learning
- Designing and establishment of an internal IT system of the Academy
- Creation and implementation of the Academy efficiency assessment
- Introduction and organisation of legal research within the Academy and a Documentation Section and a Library
- Realisation of study visits in relevant legal training centres in Europe for the Academy staff

Strengthening the planning and court budget management mechanisms and promotion of the status and position of judges and court officials

- Law Amending the Law on Court Budget
- Preparation of an automatic input for annual court budgets; generation of analytical reports
- Monitoring and reporting of capital investments and expenditures for all courts and provision of functional analysis of court operations
- Law on Judges' Salaries
- Law on Court Service

Promotion of the system for execution of court verdicts

- Designing and development of a software application for network connection of the Executors Chamber and the Ministry of Justice
- Conducting of continuous training of the organisational structure employees of the Ministry of Justice in charge of control and supervision of executors' performance

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<sup>25</sup> Accession Partnership Priority, Key priority: "Enhance the general business environment by further improving the rule of law, strengthening the independence of regulatory and supervisory agencies, speeding up legal procedures and continuing registration of property rights.

- Evaluation of the effects of the adoption of the Law on Execution

#### Implementation of the Law on Mediation

- Opening two new mediation centres
- Opening a mediation centre in Gostivar
- Training of mediators

#### Operability of the constitutional provision and the provisions of the Law on Offences

- Evaluation of the effects of the adoption of the Law on Offences
- Harmonisation of all the laws on the basis of which an authority or an organisation and another body with public powers may pronounce sanctions for offences
- Drawing up unified forms for the needs of the bodies acting upon offences

#### Implementation of the modified concept on court protection against administrative acts

- Implementation of the Law on Administrative Disputes
- Establishment of an Administrative Court
- Evaluation of the effects of the adoption of the Law on Administrative Disputes

#### Implementation of the Constitutional amendments in the Public Prosecutor's Office area and strengthening the Public Prosecutor's powers in the pre-investigation and the investigation procedure

- Adoption of a Law on Public Prosecutor's Office
- Adoption of bylaws implementing the Law on Public Prosecutor's Office
- Adoption of a Law on Public Prosecutors Council
- Establishment of a Public Prosecutors Council
- Establishment of a Higher Public Prosecutor's Office in Gostivar

#### Further strengthening the capacity of the legal system, so that it could deal with organised and economic crime

- Further strengthening of the institutional capacity of the Unit in charge of combating organised crime and corruption and its transformation into separate Prosecutor's Office in accordance with the new Law on Public Prosecutor's Office
- Staffing and material and technical equipping of the Unit in charge of combating organised crime and corruption (Public Prosecutor's Office in charge of combating organised crime and corruption) in accordance with its improved status and competences following the adoption of the Law on Public Prosecutor's Office
- Preparation and conducting of modules for training seminars in the area of organised crime, drug trafficking, corruption, economic and financial crime, customs crime, e-crime, trafficking in humans, money laundering, financial investigations, special investigation measures, witness protection and witnesses-collaborators, international cooperation tools, forensics and case management for representatives of the Unit and other bodies with specific powers
- Specialised training for unit members for strengthening their English language speaking skills (legal terminology)
- Analysis of the needs for provision of hardware, software, human resources, structure and logistics for development of electronic database for organised crime and corruption
- National plan on launching a system for collection, monitoring and exchange of data on organised crime and corruption
- Putting into operation of the system for collection, monitoring and exchange of data on organised crime and corruption and common access to databases
- Strengthening the institutional capacity of specialised units for organised crime within the courts
- Premises, equipment, staff, training

#### Promotion of the criminal legislation system

- Law amending the Criminal Code
- Adoption of a new law on Criminal Procedure
- Transferring the powers on leading investigations from investigation judges to Public Prosecutor's Office

- Decision on classification of criminal deeds
- Transferring criminal records from the Ministry of Interior to courts

Promotion of the system for free legal assistance

- Adoption of a Law on Free Legal Assistance

Establishment of efficient and functional information technology in legal institutions

- Activities regarding implementation of the ICT Strategy in Legal Institutions 2007-2010

Promotion of the legislation in the administrative area due to simplification of the administrative procedure and decreasing of procedure deadlines

- Analysis of the implementation of the Law on General Administrative Procedure
- Law Amending the Law on General Administrative Procedure
- Directions on the administrative procedure forms

Strengthening the institutional and administrative capacities of the penitentiary system

- Adaptation and extension of the DRI Stip
- Adaptation and extension of a part of the facility of the DRI Kumanovo
- Adaptation and restoration of the additional facilities of DRI Idrizovo
- Adaptation and extension of the prison in Prilep due to movement of the Ohrid juvenile prison
- Provision of location and construction of a new YOI
- Adaptation and restoration of the third section of DRI Idrizovo and furnishing thereof.
- Creation of an open unit of DRI Stip; equipment and staffing
- Creation of a semi-open unit of DRI Idrizovo; equipment and material maintenance
- Construction of a semi-open type of prison in Strumica
- Creation of an open unit of DRI Idrizovo; equipment, staffing and material maintenance
- Initiation of regular operation of the Training Centre for detention and reformatory institutions employees
- Construction, equipping of a home-hospital facility, staffing and material maintenance thereof
- Filling of systematised job positions in DES, DRI and YOI

### 3.10 Protection of ownership rights

Property rights protection is a high priority of the Government of the Republic of Macedonia. In accordance to the agreed plan for establishment of Real Estate Cadastre for 2007 and by following the tempo of the activities under the agreed Plan within the Real Estate Cadastre and Registration Project, SAGW, the local offices for real estate cadastre and Sector-Skopje (under which authority are the cadastral municipalities where the REC is to be established) in 2007 and by the end of the Project in 2009, will conduct systematic (first) registration of real property rights. By October 2007, the REC has been established in 1164 CM out of 1709 (the total number of) cadastre municipalities, which accounts for 68, 2% established REC throughout the territory of Republic of Macedonia<sup>26</sup>.

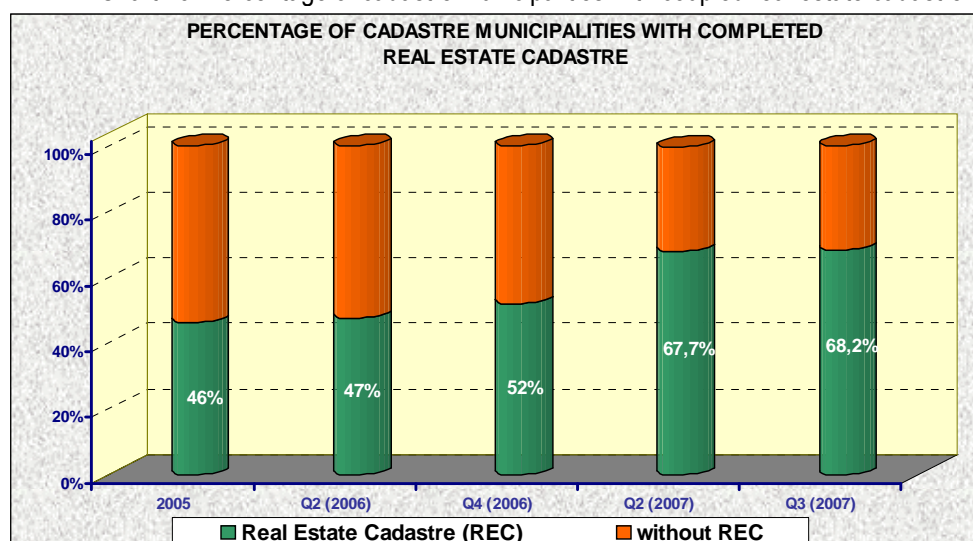
By the end of 2007, the systematic registration of real property rights will continue in 100 CM. The number of adjudication commissions will be increased and by the end of 2007, REC will be established on 71-72% of the territory of the Republic of Macedonia. This percentage is higher than the initially planned 68% under the Project for 2007. According the Project Implementation Plan and the achievement of the main objective – *establishment of real estate cadastre throughout the whole territory of the Republic of Macedonia* - bellow is provided a graphical overview of the tempo of establishing Real Estate Cadastre by the end of 2009.

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<sup>26</sup> Accession Partnership Priority, Economic Criteria: "Proceed with the registration of land and real estate and strengthen the cadastre in order to enhance legal certainty for economic operators and improve the functioning of market economy mechanisms.

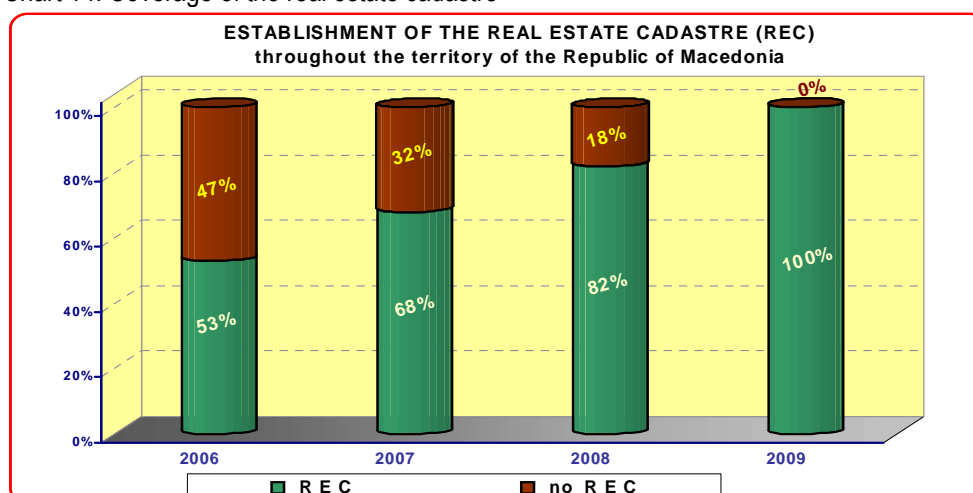


Chart 13: Percentage of cadastre municipalities with coupled real estate cadastre



Source: Cadastre

Chart 14: Coverage of the real estate cadastre



Source: Cadastre

It should be emphasized that according the agreed plan for establishment of the REC, certain technical activities take place prior the procedure for systematic registration of real property rights. The real property data are updated for the adequate cadastre municipalities through the reambulation procedure, which is under the authority of the private geodetic practice, in order to accelerate the procedure for registration of accurate and up-dated real property data.

### Financial implications for realisation of project activities

In compliance with the signed Loan Agreement between the World Bank and the Government of the Republic of Macedonia in 2005, the Real Estate Cadastre and Registration Project shall be implemented by the State Authority for Geodetic Works – Skopje. The project will be financed in the amount of 10.3 million Euros from the loan proceeds and 1.52 million Euros from the Republic of Macedonia Budget funds.

Table 21: Expenditures and sources for the period of 2007-2009

<b>Financing source</b>	<b>current 2007</b>	<b>2008</b>	<b>2009</b>
Loan IBRD 4768-MK	2.515.000	4.785.000	1.118.000
Budget funds	412.000	556.000	217.000
<b>TOTAL</b>	<b>2.927.000</b>	<b>5.341.000</b>	<b>1.335.000</b>

### **New legal framework in line of establishing the Real Estate Cadastre**

The provisions of the new Law on Real Estate Cadastre will accelerate the procedure for systematic (first) registration of real property rights and other provisions will facilitate simplification of the procedure for maintenance of changes in the real estate cadastre. The new legal solutions comprise the proposals for changes in the procedure for establishment of REC under ex-officio procedure (systematic registration) and they are expected to accelerate the procedure for establishment of the REC.

### **3.11 Foreign Direct Investments**

Condition - The analyses of DFI flow in the Republic of Macedonia in the course of the last ten years have shown that results were achieved which generally may be estimated as insufficient. According to the data of the National Bank of the Republic of Macedonia, the cumulative amount of input FDI in the Republic of Macedonia from 1991 until 2007 (June) was U.S.A. 1.782 million, which amounts approximately U.S.A. 891 per inhabitant.

Table 22: Flow of FDI in the Republic of Macedonia and their share in the GDP

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/ 1-6
U.S.A. million dollars	30,7	128,0	32,8	178,5	445,1	81,7	99,3	163,1	112,5	359,6	101,6
Share in GDP	0,8	3,6	0,9	4,5	11,9	2,2	2,1	3,1	1,8	5,7	-

Source: NBRM

As to the origin of investments the biggest investors are Austria (EVN) and Hungary (Macedonian Telecommunications), and the remaining big investments originate from Greece, Netherlands, Cyprus, Switzerland, Germany, Slovenia, and Italy. In the structure of FDI, the largest part is connected with the privatisation process (production of food products, industry of metal products, oil and oil derivatives refining), the service sector, above all in banking (Stopanska Banka, Tutunska Banka, Alpha Banka, Ohridska Banka etc.), the insurance sector (QUBI AD, Skopje, SIGAL, Vardar Insurance), and trade.

In addition to the expected privatization in parts of the public sector, this process may not be expected to have a dominant role in attracting FDI in the next period, either. An increased inflow of "Greenfield" investments are expected and their incremented share in the GDP as follows: in the industrial sector, power sector, tourism, banking sector, infrastructure and investment in TIRZ (technological industrial development zones).

Legal and Institutional Framework for Foreign Direct Investments – The Constitution of the Republic of Macedonia guarantees the national treatment to all investors. Generally, there are no restrictions for entrance of foreign capital except in the trade with drugs and protection of the historic monuments and cultural heritage. Since 1994 the Republic of Macedonia has ensured by the MIGA membership a protection of foreign direct investments (hereinafter referred to as "FDI") against political risk. Furthermore, it has signed bilateral Agreements related to stimulation and mutual protection of foreign investments with a large number of countries inclusive the largest number of South-Eastern Europe and EU member countries (with 30 countries), including Agreements on exception from double taxation (ratified with 28 countries).

The Government of the Republic of Macedonia apart from the improvement in the investment climate, strengthens permanently in function of incrementing the inflow of FDI the institutional capacity for investment through governmental bodies (Tim Macedonia, two ministries of foreign investments, Ministry of Economy – Industrial Policy and Investments Sector, Foreign Investment Agencies of RM, TIRZ Directorate, Development and Investment Agency), and in cooperation with the non-governmental institutions included in activities for investment.

The Foreign Investment Agency of the Republic of Macedonia, Invest Macedonia started to operate in January 2005. That is a state institution focused on investment services providing them with all the relevant information and service in one place.

Anticipated Measures and Activities – According to the Working Program of the Government of the Republic of Macedonia one of the main goals in the economy section is to increase the country attractiveness for foreign and local investments through the lowest taxes in Europe and other investment stimulations, simplification and increased projection of regulation, transparent operation of state institutions, improved public administration and easier access to financial resources. In the direction to improving the investment climate in Macedonia, the Government of the Republic of Macedonia undertook series of measures and activities last year, which would contribute the country to become an attractive place for investment. Reforms in the taxation system started by introducing of flat tax, reduction of profit tax and income tax including a zero rate of reinvestment income tax; the customs reform provides modernisation and automatisisation of customs procedures and professionalism of the customs management, intensification of reforms in the cadastre by World Bank support, whereas with respect to the business operation the process regulatory guillotine is in its final stage.

The government, through its representatives and the Foreign Investment Agency carries out intensive promotion of the Republic of Macedonia in the world as an attractive venue for investment. It has ambitious expectations and anticipates the investment rate to be 25% of GDP gradually from 2007 whereas in the part of the public investments to reach the level of 5% of GDP from the present 3%.

The new *Program on Stimulation of Investments in the Republic of Macedonia* in the period between 2007 and 2010 adopted by the Government of RM in June 2007 will close the adaptation of legal regulations and the improvement of business operation in accordance with the accepted international standard.

The program instructs the department ministers, other administrative authorities, state institutions and business associations to activities in relation to making operational the recommended measures) the legal, institutional and others: financial, educational, program, feasibility study and alike) by actual bearers and with defined time schedule. The Program focuses on 10 climate improvements for investments in the Republic of Macedonia.

The government program anticipates **Invest Macedonia** to be the only development and investment agency in the Republic of Macedonia. By a full Government and international institution support, well staffed and financially strengthened, it actively operates on promotion of Macedonia as an attractive venue for investment and attraction of the potential foreign investors in the country. To perform the function more successfully, besides the local office, a few representatives would be appointed each covering promotion and campaign for attracting investors in several countries in the world.

### 3.12 Environment

Priority of the Republic of Macedonia is to ensure appropriate strategic basis for the legislation enforcement, as well as ensuring capacity and institutional structures necessary for accelerated process of identification, preparation and implementation of projects in accordance with the requirements for multilateral and bilateral support.

The process of decentralisation has posed identification of numerous priorities and actions aimed at facilitated transfer of competences, enhanced capacity of local self-government to fulfil the new obligations and establishment of strong interaction between central and local level. The importance of these issues is further confirmed by the role to be played by the local self-government towards ensuring stable progress towards compliance with the EU.

Challenges of sustainable development, reflected through strong focusing on the integration of environmental issues into other relevant sectors in order to provide for the future development of these sectors to be achieved in a more sustainable manner in terms of environment protection and affirmation of the fact that timely prevention is much more effective and less costly than future remedy of damages. To this end, contribution is expected by the development of the National Strategy for Sustainable Development of the Republic of Macedonia with Action Plan (the development of which has commenced in February 2006) and by the priorities, goals, measures and activities defined in the Second National Environmental Action Plan of the Republic of Macedonia (Second NEAP), adopted by the Government of the Republic of Macedonia in March 2006).

The need for higher level of environmental investments has been identified as prerequisite to the fulfilment of the requirements of the acquis, especially in the areas of wastewater treatment and solid waste management, as well as establishment of a system of integrated water resources management. Due to the level of financial resources required to implement the said investments, and in order to achieve the high EU standards, detailed plan concerning the remained activities needed in the process of approximation of the national legislation with the EU law was developed in the frameworks of CARDS 2005 Programme in the course of 2006/2007. Under this strategy, estimates have been made with regard to the costs of the implementation of Directives and financing plans. Apart from this, there is an evident need for further analysis that should provide the grounds for the investments required towards the achievement of the EU standards, especially the requirements of the "heavy investment" directives. These activities will be carried out on the basis of the National Strategy for Environmental Investment, the development of which has commenced in October 2007.

One of the opportunities for implementation of projects in the area of environment is the third component of the Pre-accession Funds (IPA) – Regional Development. The First Operational Programme under this instrument was prepared during the first half of 2007.

With reference to environmental investments, in March 2007, the government adopted the Programme for Environmental Investments for 2007. For the purpose of the Programme implementation, public announcement was made for the purpose of allocation of resources to finance and implement , projects and activities in the area of environment for 2007.

#### **Horizontal legislation**

Development of the National Strategy for Sustainable Development of the Republic of Macedonia and its adoption in 2008, as well as development of State of Environment Report (2009) are expected to contribute to the improvement of the environment management system.

The key priorities in the coming period in this area include:

- Enforcement of the law and bylaws, with an accent on EIA and IPPC, and SEA later
- Strengthening of administrative capacity in the new legislation enforcement
- Preparation and adoption of strategic documents in the area of environment

#### **Air and climate change**

Priorities in this area include the adoption of National Plan for Ambient Air Protection, as well as Programme for Pollution Reduction and Ambient Air Quality Improvement. Establishment of assessment criteria for ambient air quality and List of zones and agglomerations have also been identified as obligations to be implemented by the end of 2007.

In the domain of climate change, in February 2007, the Government of the Republic of Macedonia adopted the National Strategy for Cleaned Development Mechanism, and the Second National Communication towards the United Nations Framework Convention on Climate Change (supported by GEF) is underway.

The key priorities in the coming period in this area include:

- Enforcement of the law and continuation of the process of approximation of the legislation in this area through adoption of the relevant secondary legislation
- Strengthening of administrative capacity in the new legislation enforcement, with an accent on the strengthening of capacity in air quality monitoring
- Implementation of measures specified in the National Environmental Monitoring Strategy and National Strategy for Environmental data Management (this measure concerns the areas of water, waste, noise)

#### **Waste**

During the development of the National Waste Management Plan (2005), initial assessments and prioritisation of industrial hot-spots in this area were made and these were elaborated in detail in 2007 in the frames of CARDS 2006 Programme.

The need for higher level of environmental investment has been identified as precondition for fulfilment of the requirements under the *acquis* in the area of integrated waste management. To this end, in 2007, the MEPP financed the development of Feasibility Studies for waste management in Skopje and Polog regions, respectively; at the same time, series of projects aimed at remedial of municipal and illegal landfills in several municipalities in the Republic of Macedonia have been implemented. Donation of Norwegian Government for development of Feasibility Study for waste management is in a stage of approval.

The key priorities in the coming period in this area include:

- Development of a Strategy for Waste Management<sup>27</sup>
- Establishment of integrated waste management system
- Strengthening of administrative capacity for legislation enforcement
- Construction of infrastructure for waste management
- Closure and revitalization of illegal landfills
- Establishment of waste monitoring network

### **Water**

In the area of water, significant progress has been made reflected in the fact that the Government approved the Proposal for adoption of the Law on Waters (October 2007), thus settling the several years old dilemma concerning the appointment of the competent body within which the waste management bodies are to be constituted, which is one of the main requirements in the process of transposition of the Water Framework Directive 2000/60/EC. The law is expected to be adopted by the Assembly of the Republic of Macedonia by the end of 2007.

The key priorities in the coming period in this area include:

- Adoption of the new Law on Waters
- Development of Strategy for Waters and Strategy for wastewater treatment
- Development and adoption of Water Master Plan
- Continuation of the process of approximation through adoption of the relevant secondary legislation
- Definition of institutional competences in this area
- Strengthening of administrative capacity for the law enforcement
- Additional investments in wastewater treatment systems
- Establishment of integrated water management system

### **Nature**

In 2007, a Memorandum of Understanding was concluded between the Ministry of Finance, Customs Administration and Ministry of Environment and Physical Planning, and it regulates the activities of competent bodies in trade (import, export and transit) with endangered species of wild fauna and flora, their parts and derivatives, thus enabling the implementation of the requirements of the CITES.

Funds have been provided from external donor sources for the implementation of the Galicica National Park Management Plan. Negotiations concerning provision of financial support are in progress with the Italian Government, concerning preparation of Management Plan for the National Park Mavrovo. PDF Project has been approved towards introduction of the national system of protected areas - GEF/UNDP.

The key priorities in the coming period in this area include:

- Continuation of the process of approximation through adoption of secondary legislation
- Development of Strategy for nature protection
- Strengthening of administrative capacity and improvement of the system of protected areas management at national level
- Valorisation and revalorisation of areas
- Development of plans for National Parks management

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<sup>27</sup> Prepare strategic plans, including financial strategies, and prepare a national waste management strategy and waste management plan – Accession Partnership priority, Chapter 27 – Environment: “

### **Industrial pollution**

The amendments of the Law on Environment provided for improved legal grounds for adoption of the relevant secondary legislation concerning the level of the compensation for issuance of integrated environmental permits. Decree on the level of the compensation to be paid by operators of A installations and B installations was prepared, as well as Rulebook on substances and their emission limit values specified in the B integrated environmental permit, Rulebook on the work and organization, as well as the manner of work, detailed conditions to be met by experts and procedure for the establishment of the list of experts to participate in the Commission for adjustment plans.

By the end of 2006, the IPPC procedure was initiated by receiving the first applications for A integrated environmental permit.

In the frameworks of CARDS 2006, Feasibility Studies have been developed for four priority industrial hot-spots (2006/2007).

The key priorities in the coming period in this area include:

- Enforcement of the Law on Environment, segment on IPPC
- Continuation of the process of its approximation through adoption of secondary legislation
- Strengthening of administrative capacity (Office of Environment and Inspectorate of Environment) for the purpose of enforcement<sup>28</sup>
- Implementation of projects for industrial hot-spots rehabilitation

### **Chemicals**

In this area, a Framework Law on Chemicals was adopted in 2007, to regulate the chemicals management in accordance with the *acquis communautaire*. It is of particular importance to establish in the coming period the institutional system providing for Sound chemical management and to prepare for the implementation of the new REACH system for chemicals management, on national level.

Within MEPP/Administration of Environment, Division on chemicals and industrial accidents management was established, one of its tasks being to perform monitoring over import/export and consumption of certain chemical groups.

In October 2006, the Implementation Committee of the QuickStart Fund of SAICM Programme approved funding for the implementation of the project Preparation of National Plan for SAICM implementation. Currently, preparations for the project start are in the final stage and project activities are expected to commence by the end of 2007 at latest.

The key priorities in the coming period in this area include:

- Development of analysis of the current status of chemicals and possibilities and a plan for implementation of the requirements under the REACH legislation
- Establishment of a system of sound chemical management - institutional strengthening

### **GMO - Genetically Modified Organisms**

The area of GMO (GMO and GMO containing products, deliberate release of GMO into the environment or release of GMO or GMO containing products for trade - import and export) is not regulated as yet by specific act, but the framework for the law has been developed and its adoption has been scheduled by the end of 2007.

The key priorities in the coming period in this area include:

- Adoption of the Law on GMO and relevant bylaws

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<sup>28</sup> Strengthen the Environmental Inspectorate and other enforcement bodies, establish a credible enforcement record and ensure that fines and other sanctions are effectively applied and have a dissuasive effect.

- Strengthening of administrative capacity on national level for the purpose of its enforcement

### **Noise**

The Law on Protection against Environmental Noise was adopted in 2007. A draft Rulebook on locations of the measuring points where effects from the sources of noise should be monitored and the draft Rulebook on the core and additional noise indicators, method of indicators assessment and manner of noise measurement, have been prepared, too.

The key priorities in the coming period in this area include:

- Development and adoption of the Law on Protection against Environmental Noise and relevant bylaws
- Strengthening of administrative capacity on national level for its implementation
- Establishment of noise monitoring and information system
- Introduction of noise prevention measures, concerning all sources

### **Spatial Planning and GIS**

In the frameworks of the spatial planning and GIS, the programme for spatial plans has been implemented during 2006 and 2007

## **3.13 Health**

### **Current situation**

The Ministry of Health and the government are in charge of health policy formulation and implementation, the Health Insurance Fund is responsible for the collection and management of the funds and the health care institutions for service delivery.

Health care protection is provided on three levels: health care stations and health care centres on the primary health care level, the specialist-consultative and inpatient departments at secondary level, and the university clinics and institutes at tertiary level. In the last years there is considerable growth of the private sector, especially on the primary care level. The Ministry of Finance shares the rotating chairmanship of the HIF management Board with the Ministry of Health. Local Self-government has taken some responsibilities especially in the preventive health care sector. The professional chambers developed and implemented a new licensing system for the health care workers, and the medical associations developed new clinical guidelines.

The Ministry of Defence supervises the health care provision for army personnel in the military hospitals, and the Ministry of Labour and Social Affairs, apart from supervising the health care rights of workers, also cover the insurance contributions of the needy, the unemployed and the pensioners.

Major segments of the health care system are defined by the Law on Health Care. Additionally, specific legislation regulates different areas such as: communicable diseases, tobacco, health evidence, pharmaceutical products, medical devices, chemicals, the 169 protection against ionising radiation, chemicals, drug and psychotropic substances abuse, food safety, protection against ionising radiation, pharmaceutical products, food safety, pregnancy termination and organ transplantations. For the supervision of these topic areas the Ministry of Health has established State Sanitary and Health Inspectorate responsible for control of the implementation of the legislation, the Drugs Bureau. This supervises registration and licensing procedures for drugs, remedial medicines and medical devices, participates in the preparation of the essential and positive drug lists, and control implementation of the relevant legislation, and the Food Directorate which is responsible for food safety surveillance and for the control of the implementation of the legislation in the field of food safety.

### **Priorities**

The health system in Republic of Macedonia is faced with challenges related with improvement of the health status of the population, providing the basic package of health services, public health, planning, management and development of human resources, quality assurance and health financing, as well as for securing the sustainable development. Therefore, the strategic priority of the Ministry of Health is development of the system of health care and providing compatibility with the EU system, which among other will provide free movement of

health care professionals, services and patients. According to the analyses of the health status of population in Republic of Macedonia and the health system functioning, Ministry of Health prepare health strategy and determine priorities that are to be realized until 2015:

- improvement of the health status of the population, with the special attention of the vulnerable groups
- improvement of the organisation of the health care/ establishment of specific
- national system of health management
- modernisation of the system for public health protection according to EU standards,
- with the accent to the network of institutes for health protection and the services for occupational medicine
- improvement in the human resources planning in the health sector
- establishing the system for quality assurance in the health sector
- improvement of the health care financing and establishing the system for sustainable financing
- improvement of pharmaceutical services
- improvement of the health information system
- management of the health care reform
- approximation of EU standards in the field of health



#### 4 MATRIX OF ECONOMIC REFORMS

Matrix of economic reforms		
Enterprises sector		
Privatisation		
Policy objectives	Measures to be taken	Deadline
Completing the privatization process	Completing the privatization process in the companies with social capita, and sale of shares of state capital in the companies	2008
	Privatization of the parts of public companies and institutions according to the Laws	2008
4.1.2. Strategy and policies in industry		
Policy objectives	Measures to be taken	Deadline
Improving the competitiveness of the Macedonian industry and increasing industrial production	Strategy for development of the textile industry	2007
	Action plan for revitalization of the textile industry	2008
	Implementation of the Strategy for development of the textile industry	2008-2010
	National strategy for restructuring of the steel industry and its implementation;	2008 -2010
	Published First Bulletin for Macedonian steel industry	2007
	Study for measurement of competitiveness indicators of the Macedonian	2008
	“Green Book” of competitiveness of Macedonian industry as a basis for industrial policy development	2008
	Strategy for industrial policy and its implementation	2008-2010
	Internationalization – improvement of Macedonian companies promotion on international markets, creation of better information bases and export capability	2008-2010
	Clustering – Creation of new Cluster Associations for increasing the competitiveness of the production of industrial sectors	2007-2010
Energetic development		
Policy goal	Measures to be taken	Deadline
1. Liberalization of the energy market:	Implementation of the Treaty Establishing the Energy Community	2007-2008

	Implementation of the Project for Social Protection against energetic poverty (EDRD)	2009
	Implementation of the environmental management system	2008
Energy efficiency and sustainable development	Making the middle- and long-term development plans for EE and RER	2008-2009
	Drafting and adopting the by-laws	2007-2010
Infrastructure development	Implementing projects in the energy sector	2007
	Study for using wind energy in the Republic of Macedonia	2009
	GEF Project for sustainable energy..	2008
	Solar water heaters” project	
	Organizing public campaigns for raising the awareness about the importance of EE and RER	2007-2008
Business environment and SMEs		
Policy objectives	Measures to be taken	Deadline
Establishing favourable climate for entrepreneurship development	Preparation of new four-year Program for entrepreneurship support	2007
Development of infrastructure for export orientation, innovativeness and cooperation with the department for SMEs	Support of the existing infrastructure (APPRM, EICC, Observatory)	2007
	Human resources Fund	2010
	Building capacities for new contents of the regional centres	2008-2010
	Incubators	2010
	Development and networking of new centres for SMEs support	2007-2010
	Support in establishment of entrepreneurship zones	2007-2010

Development of instruments for (non) financial support of SMEs and entrepreneurship	Support for the centres for technological development	2007-2010
	Operational voucher system	2007-2010
	Promotion of the micro-credit lines efficiency	2007-2009
	Specific training programs for specific target groups;	2007-2010
	Support of the regional craftsmen chambers and their networking;	2007-2010
	Organising trainings for the unemployed; - Realization of the active employment program – Out of 2500 unemployed 500 were selected which by the end of 2007 will found a company and will be approved grant to the extent of around 2000 euros. – The activities are realized through APPRM	2007-2009
	Entrepreneurship bonuses	2007 -2010
	Publication of magazine – Export news Macedonia	2007 -2010
	Raising the awareness for IKT	2007 -2010
Improvement of MSP competitiveness and innovativeness	Campaign for introducing the quality standards	2007 -2010
	Raising the awareness for intellectual property rights	2007 -2010
	Co financing of postgraduate studies – entrepreneurship	2007 -2010
	Publication of brochures for MSP.	2007 -2010
Market entry and exit		
Further improvement of the market entry and exit mechanisms	Creation of Special bureaus for technical support by the Central registry	2007
	Operative electronic system for electronic submission of annual accounts	2008
	Rescue system of disasters	2009
	Training of the trustees	2008
Tourism		
Policy goal	Measures implementation	Deadline
Faster and improved positioning of Macedonian tourism on the international tourist market		

- Macedonian tourism image, competitive on the international tourist market	Participation on tourism fairs in Sofia, Istanbul, Berlin, Moscow, Belgrade, Pristina, Cologne.	continual
	National strategy for tourism development; the first phase, analysis of the present condition by experts from the World Tourism Organization, has been finalized. The Government is supposed to adopt it in November.	
Improving the standards and quality of the lodging facilities		
- Improving and modernizing the existing hotels, tourist settlements and other lodging facilities	• Categorization of the lodging facilities in accordance with the existing regulations (Law on Catering and Tourism Activity)	Continual
	• New regulations on categorizing the lodging facilities (The new Rule-book for categorizing the premises for catering has been adopted)	2006
Developing new types of tourism		
- Developing tourism in all of Macedonia	• Supporting the tourist offer based on traditional, natural, cultural and other values	2007-2009
Foreign direct investments		
Improving the investment climate	Preparation of a new Program for stimulation of foreign direct investments 2007-2010;	2007;
	Implementing the project: "Improving the investment climate in RM";	2007-2010
	Implementation of the Program: "Stimulating investments in RM"	2007-20010
	Implementation of the project for the reform of the business environment and institutional strengthening BERIS	2006-2008;
Financial services - banking system		
Objectives	Proposed measures	Deadline
Strengthening the stability of the banking system	- harmonization with the new Banking Law.	2008
	- implementation of the Capital Accord Basel II, with regard to interest and operating risk	2009
	- implementation of the risk-oriented supervision and implementation of Basel II with regard to credit risk	2010

	- improvement of the corporate governance in banks and increasing of the efficiency in their operations	Continuous
	- implementation of supervision measures	Continuous
	- establishment of private credit bureau	2008
Strengthening the competition	- implementation of the provisions of the new Banking Law	2008
	- introduction of new financial products and institutions	2007
Diversification of the financial sector	- establishment of financial companies	June 2008
	- financing through public-private partnership	Continuous
Insurance sector		
Objectives	Proposed measures	Deadline
Improving the insurance system		
	Establishment of Insurance Supervision Agency	Beginning of 2008
	Organization and carrying out exam for insurance brokers and insurance agents.	First half of 2008
	Strengthening the capacity of the Insurance Supervision Agency,	2007-2009
	Strengthening the established software system and providing of information technology.	2007- 2008
Capital Market		
Increasing investors trust in to Macedonian capital market	New regulation for establishment of guarantee fund	End of 2009
	New Law on investment funds	End of 2008
ROAD TRANSPORT		
Objectives	Measures to be taken	Deadline

To continue harmonization with the acquis in the field of road transport and administrative capacity building for implementation of the Legislation in the road transport	Preparation of new Law on Public Roads	2008
	Strengthening the capacity for implementation of legislation in the road transport.	2008
Construction of sections of the Pan-European Corridors VIII and X	Construction of Skopje Bypass Phase I (K-8), performed by construction company Granit, Skopje according to dynamic plan should be completed 2008	2008
	Construction of Skopje Bypass Phase II (K-8), performed by construction company TERNA, should be completed 2008	2005-2008
	Construction of Motorway Kumanovo-Tabanovce 7.5km, Loan contract was signed with World Bank -Launch of project tendering -Signature of Construction Contracts	From 2007
	Construction of Motorway Demir Kapija-Smokvica, 28.5 km - Launch of project tendering -Signature of Construction Contracts	2007-2010
	Completion of projects and construction of motorway, border with R. Albania-Skopje-Border with R. Bulgaria	2008-2015
Construction of national and regional road network in Republic of Macedonia	Radovis-Strumica	2009
Enforcement of bridges and rehabilitation of the part of E-75 (K-10)	Enforcement of Bridges	2008
	Rehabilitation of 60km, Highway Skopje-Veles	2005-2008
RAILWAY TRANSPORT		
Objectives	Measures to be undertaken	Deadline
1. Harmonization of the national with the EU aquis	Law on Agency for regulating the market of railway services	May 2008
2. Reform in the railways	Establishment of payment system through development of system through development of a system for development of the railway infrastructure.	July 2008
	Determination of the non-profitable railway lines, for which the Government shall provide compensation through the Budget funds	September 2008

	Separation of the accounts of the passengers and cargo transport in the Macedonian Railways Transport AD-Skopje.	July 2008
	Study for rationalization and decrease of the expenses for the work of the PE for railway infrastructure Macedonian Railways and Macedonian Railways Transport AD.	April 2008
	Privatization process of Macedonian Railways Transport AD-Skopje.	February 2009
	Development and improvement of the security in the railway system, through establishment of joint safety indicators, joint safety aims and joint safety measures.	2008 -2010
	Establishment of the Agency for regulating the market of railway services, accommodation and hiring personnel for the Agency	2009
3. Financing the PE for railway infrastructure from the Budget of the Republic of Macedonia	The National Program for investments in the railway infrastructure	2009
	Preparation of an Annual Plan for construction, reconstruction, modernization, repair and maintenance of the railway infrastructure for the current year and a Report for the realization of the Annual Program for railway infrastructure for the previous year.	2009
4. Investments in the infrastructure and transport-World Bank credit	Investments in the infrastructure and transport-World Bank credit	2008-2010
<b>ELECTRONIC COMMUNICATIONS</b>		
<b>Objectives</b>	<b>Measures to be undertaken</b>	<b>Deadline</b>
Establishment of two new regulatory bodies pursuant to the National Strategy for development of Electronic Communications with Information Technologies and merger of existing regulatory bodies.	The Government of the Republic of Macedonia shall establish the National Council for Information Society Development	End of 2007
	Establishment of a Fund for Information Society Development, according to NSECIT.	2008
	Merger of the regulatory body responsible for electronic communications and the regulatory body for broadcasting activity into one body	End of 2008
Commencement of implementation of the National Strategy for Development of Electronic Communications with Information Technologies	Adoption of an Action plan for implementation of measures provided for in NSECIT.	End of 2007
	The National Council for Information Society will follow the implementation of measures provided for in this Strategy, taking into account relevant indicators; it will prepare 6 months reports	Continuously
	The National Council for Information Society in cooperation with the State Statistical Office will update and follow the list of indicators for development of information society.	Continuously
Measures to be realized by the Ministry of	Continuous monitoring and approximation of the national legislation with the EU acquis in the domain of	Continuously

Transport and Communications, which are result from the Action Plan of the National Strategy for Development of Electronic Communications with Information Technologies	Information Society and media.	
	The Government will propose two new laws (on electronic communications and broadcasting activity) for the purposes of merger of the regulatory bodies for electronic communications and broadcasting activity	2008
	The Government will propose a Law on the Establishment of an Information Society Development Fund of the Republic of Macedonia.	Beginning of 2008
	The Strategy for Development of Broadcasting Activity should be complementary with the National Strategy for Development of Electronic Communications with Information Technologies and the National Strategy for Development of Information Society of RM.	End of 2007
	The independent regulatory authority in charge of regulating the electronic communications should develop its own Strategy and Action plan for its future operations.	2008
	Preparation of Strategy for development of broadband internet.	Initiation of preparation of the strategy at end of 2007
Measures from the Action Plan of the National Strategy for Development of Electronic Communications with Information Technologies	Preparation of a strategic document for e-Inclusion	beginning of 2008
Measures, resulting from the Action Plan of the National Strategy for Development of Electronic Communications with Information Technologies and initiatives to be activated by the Ministry of Transport and Communications according to the Strategy	Local governments shall, within one and a half year, adopt local ICT strategies. The National Information Society Council shall prepare quarterly reports on the progress made as regards adoption of local ICT strategies	2009
	Amending all the legal solutions by which all legal and administrative barriers regarding construction works for telecommunication infrastructure will be removed	Continuously
	Revising the technical standards for construction of	2008
	Preparation of a legal solution regarding the institutional transformation of the national academic and research network (MARNet).	Initiation of the preparation of the law in 2008
	Preparation a package for changing the current legislation with the aim for achieving information security from the aspect of ICT, by taking into account, at the same time, the fundamental human rights, freedom of expression, free access to information, protection of personal data.	2009, possible earlier



	Revision of current legislation and regulatory framework – whether it provides for sufficient protection of the national and individual “information capital” and of the ICT infrastructure.	2009, possible earlier
Measures, resulting from the Action Plan of the National Strategy for Development of Electronic Communications with Information Technologies and initiatives to be activated by the Ministry of Transport and Communications according to the Strategy	The regulator in charge of electronic communications shall revise all existing regulations governing the management and allocation of radiofrequencies so as to facilitate the development of the so called “wireless economy”.	Continuously as of 2008
	The regulatory authority in charge of electronic communications should undertake detailed in-depth research and analysis so as to define the optimal universal service strategy for the country.	2008
	Adopt a package of legislative and organizational changes so as to allow e-Work, and distance work and distance learning.	Beginning of 2009 or end of 2008
	Analysis of the current legal framework which has impact on the protection of privacy of electronic communications and services and proposed measures for improving the situation.	Beginning of 2009 or end of 2008
Accelerated development of the electronic communications in the Republic of Macedonia	Regulators in charge of electronic communications and media to prepare Analysis of the Future Digital Dividend that would be obtained after the process of digitalization of the media.	Initiative to begin in 2008
	Regulators in charge of electronic communications to prepare a Study on the requirement and manner of introduction of the principle of trade with radiofrequencies.	Procedure to begin in 2008
Accelerated development of the electronic communications in the Republic of Macedonia	Preparation of a detailed study about the needs and method for introduction of functional/structural separation of electronic communications in the Republic of Macedonia.	Procedure to begin in 2008
	Accelerating the process for promoting the competition for wholesale of broadband internet access (especially for IP bit stream access)	End of 2008

	Initiation of a dialogue between all of the concerned parties for establishment of Internet Exchange within the frames of MARNet, or as an independent institution.	Procedure to begin in 2008
	The business and NGO sector should organize one-day trainings for using the internet and e-services for all interested citizens.	Procedure to begin in 2008
	Administration of .mk to be analysed by the National council for information society which should then prepare recommendations based on European experiences.	Procedure to begin in 2008
	Preparation of an action plan for introduction of IPv6 internet protocol	Procedure to begin in 2009
	A guide book should be drafted for e-accessibility and e-Inclusion.	2009
Accelerated development of the electronic communications in the Republic of Macedonia	ZELS and the NGO sector in cooperation with the Government, the business sector and the foreign funds shall organize a series of public discussions and trainings for construction of municipal networks and pilot municipalities that will implement the concept of Municipal Wireless and Municipal FTTx.	Continuously, as of mid-2008
	A conference shall be organized for the promotion and establishment of a public-private partnership for the construction and development of sustainable municipal electronic communications networks and systems supported partially by interested donators.	Continuously, as of mid-2008
	Initiative for inter-municipal border cooperation of municipalities from the Republic of Macedonia with municipalities from the neighbouring countries; in particular, the Euro-regions will be used for the realization of pilot projects of the sort.	Continuously, as of mid-2008
	Local government shall put in place the ICT infrastructure necessary for the functioning of the e-points in the rural areas	2009
	Campaign on the advantages and benefits from constructing and development of municipal electronic communications networks as a basis for an information society	Procedure to begin in 2008

	A guide book should be drafted for e-accessibility and e-Inclusion	2009
Accelerated development of the electronic communications in the Republic of Macedonia	Local government in cooperation with the Government of the Republic of Macedonia shall provide sustainable, controlled and secure internet connection for the primary and the secondary schools, as well as access to education related e-services	Continuously
	The Government of RM to encourage enterprises, including SMEs, to use ICT on larger scale and to build mechanisms that will enable enterprises to successfully take part in the global market, so as to increase Internet and PC penetration and consequently decrease the VAT for ICT products and services for the citizens.	Continuously Already adopted amendments to the Law on VAT, by which the preferential tax rate of 5% is applied to PCs and software
	The Government of RM to encourage establishment of communities of consumers and traders, increase e-confidence and protect consumers through full regulation of consumer rights on the Internet.	Continuously, as of 2009
	Conduct a campaign for raising the public awareness for efficient use of ICT equipment and information society services from the aspect of the operators and the data centres.	Continuously, as of 2008
	Prescribe measures for obligatory introduction of a Service Level Agreement (SLA) for ICT services	Initiative to commence at the end of 2008
Accelerated development of the electronic communications in the Republic of Macedonia	Develop a study for introduction of standardized ICT solutions for the small and medium enterprises and directives for their support by the Government.	Initiative to commence at the end of 2008
	Identify and eliminate obstacles for the appointment of Certificate Authority and support the application of electronic documents and signatures in the domestic and cross-border trade as well as in the communication with the Government institutions.	Continuously, as of 2009
	Preparation of a National Report and Estimation of the Awareness of Information Insecurity and needs for raising the level of knowledge and skills for increasing the information security in all segments of the society.	Initiative to commence at the end of 2009

	Promotion and recommendations for organizations (public administration, economy, civil sector) for introducing systems for managing the information security and ICT infrastructures which they use.	Initiative to commence at the end of 2009
	Introducing a certificates system for successfully managed and used systems for security of information and ICT systems for organizations, as well as annual mandatory revision.	Initiative to commence at the end of 2009
	Preparation of a feasibility study about the need for a Monitoring Center for National and Global Threats and Risks from the aspect of ICT at real time.	Initiative to commence at the end of 2009
5. Accelerated development of the electronic communications in the Republic of Macedonia	Introducing a system for regular tracking, identification and proposing measures for reducing the “organizational sensitiveness / vulnerability to “information threats” in all sectors of the society.	Initiative to commence at the end of 2009
	Preparation of an analysis and recommendations about the interoperability of services, in technical, semantic and organization sense, taking into account international standards.	Initiative to commence at the end of 2009
The Post		
Postal services development	-Preparation of a Law on Postal Services -Preparation of a Strategy for Postal Services Development -New employment in the Sector for Communications-Department for Postal Traffic	2006 –2007
Institutional strengthening	-Establishment of an independent regulatory body for postal services	2008
Public administration reform		
Goal of the policy	Proposed measures	Deadline
Public Administration Reform Strategy		
Updating of the Public Administration Reform Strategy	Updating of the Strategy	2008-2009
	Civil servants training – study visit on methodology for development of a PAR Strategy	
	Public debate on the strategy content (prior to the adoption thereof)	

Grading of the capacities of the Unit for Public Administration Reform on monitoring of the strategy implementation		
Institutional improvement of the administration structures and strengthening of the administration capacities		
Improvement of the civil service system	Implementation of employment procedures	Continuously
	Analysis of the civil servants assessment process	continuously
	Submission of data on employments	continuously
	Implementation of a Code of Ethics for the civil servants	continuously
Improvement of the human resources management	Introduction of organisational frameworks for strengthening the human resources management system	2007-2008
Drawing up measures on improvement of the human resources management	Introducing mechanisms on delegation of responsibilities of the head civil servants	2007-2008
Development of the general training system	Drawing up professional training for civil servants of the central level	Continuously
	Establishment of a Unit providing support to the training of civil servants in Skopje	continuously
Strengthening of the local government capacities	Adoption of a Training Programme for 2008	2008
	Implementation of the Training Programme	continuously
Strengthening of the strategic planning and policy creation capacities	Strengthened capacities of GS and the ministries	continuously
	Strategic planning and policy creation training	2008-2009
Improvement of the transparency and responsibility of the administration		
Improvement of the cooperation between the authorities and the Ombudsman	Report by the authorities to the Government with reference to the Ombudsman's recommendations on a trimester level	continuously
	Defining Government measures on acting upon the Ombudsman's findings contained in the Annual Report	continuously
Implementation of the Law on Free Access to Public Information	Submission of an Annual Report by the Commission for Protection of the Right to Free Access to Public Information	continuously
Development of the web portal services	Development of a comprehensive catalogue of all Government offices including key data regarding their competences, its connection to the portal-services and its distribution to the business community, the local authorities, NGOs, media	2007-2008

	Introduction of a service for submission of messages to enable direct access to the responsible persons for each request by the citizens	2007-2008
	Introduction of new bodies on the portal	2007-2008
Implementation of the Citizens Journal mechanism	Submission of trimester reports on the results obtained from the service assessment forms completed by the users	continuously
	Proposing measures for authorities the state of which has not improved in the course of two subsequent trimesters	continuously
Improvement of the supervision function of the state	Analysis of the implementation of supervision functions of the inspection offices in the Republic of Macedonia	2007-2008
	Strengthening the coordination of inspection offices	2007-2008
Implementation of the Strategy on Government Cooperation with the Civil Sector		
Advancement of the legal framework	Amending the Law on Citizens Associations and Foundations and adoption of bylaws	2007-2008
		2011- continuously
	Implementation, promotion and monitoring of the adopted decisions	2007-2008
		2011- continuously
Participation of the civil sector in the creation of policies	Establishment of mechanisms on participation of citizens and their organisations in the decision-making processes	2007-2008
	Active participation of citizen organisation members in state advisory and other bodies	2007-2008
Realisation of interinstitutional cooperation	Provision of a functional network aimed at communication and coordination of the activities relating to the civil sector development	2007-2011
Realisation of intersectoral cooperation	Promotion of efficient cooperation with the civil sector	2007-2011
Involvement of the civil sector in the EU integration processes	Involvement of the civil sector in the drawing up of the policy and legislation relating to EU integration	2007-2011
Creation of conditions for financial sustainability of the civil sector	Improvement of the framework for direct state funding	2007-2009
	Creation of a favourable tax and fiscal support framework	
	Motivating philanthropy	

	Encouraging voluntary work	
Constant development of the civil sector	Promoting the civil sector development, particularly outside the capital city and the rural areas	2007-2011
Regulatory reform		
Conducting of a regulatory reform Simplification of the excessive formalities and regulations regulating business operations	Identifying of the unnecessary formalities and administrative impediments having impact on business operations	2007
	Completion of the Single Electronic Register of Regulations	2007
Regulatory Impact Assessment		
Introduction of a RIA mechanism on assessment of the impact of regulations on business operations	Adoption of a legal/procedural framework on regulatory impact assessment on the business sector	2007-2008
	Creation of an institutional framework on introduction of the RIA system (specific RIA units within each ministry and persons in charge of RIA from each ministry)	2007
<i>Equal regional development</i>		
Policy goal	Suggested measures	Deadline
Providing basis for equal and sustainable development of the country and overcoming disparities in the development of specific regions in the country		
1. Preparation of by-laws	Rulebook – procedure and methodology for assessment of project proposals	2008
	Rulebook – procedure for selection of evaluators and methodology for assessment of the planning documents	2008
	Rulebook – selection of evaluators, procedure and methodology for project assessment (ex-ante and ex-post)	2008
2. Preparation of Development	Development for 8 planned regions	2008
3. Establishment of Centers for development	Staffing of 8 centers for development in the planned regions and training for the center	2008-2010

4. Reconstruction of the Bureau for the underperforming regions	Staffing of the Bureau for training	2008- 2010
5. Implementation of projects for equal regional development	Investment of at least 1% of the GDP on annual basis in projects for equal regional development	2008
<i>Decentralisation</i>		
Objective	Proposed measures	
Implementation of the Programme for Decentralization Process 2008 - 2010		
Improvement of the legal framework and institutional environment	Development of initiatives to improve the legal framework for	2010
Promotion of the communication with the reform	Development of the citizen participation for	2010
Effective and efficient civil servants at local level of government	Implementation of the Annual Training Programme	continually
Improvement of the role of local government in the EU accession	Participation in the EU	continually
Facilitation of intermunicipal cooperation	Dissemination of good practice and other measures	2010
Effective coordination with the decentralization process	Creation of coordinative body	2010
	Establishing of decision making procedures	2010



Education		
Objective	Measures	
Participation in the Community Program “Integrated program on Life long learning”	Adoption of Statute and appointment of managing bodies in the National Agency, appointment of director of the National Agency, equipping of the Agency, training of staff	2008
	Accreditation of the National Agency	2008
	Payment of entry ticket Participation in the Community Program “Integrated program on Life long learning”	2008
Participation in the Citizen for Europe	Signing of memorandum for cooperation	2008 - 2010
	Payment of entry ticket	
	Establishing of a working group for promotion of the program	
	Promotion of the Program	
Primary Education Continuous training	Professional educational of teaching staff	2008-2010
	Acquiring appropriate high education for class teaching of tutors in reparatory year	2008
	IT training of teaching staff	2008
	Syllabus for theology and ethics, IT and English	2008-2009
Implementation of contemporary teaching methods	Adoption of education standards compatible with the education system in EU	2008-2009
Publishing text books	Assessment of books with new mechanisms	2008-2009
	Market economy in publishing text books – competition	2008-2009
Reform activities	Syllabus for second and third grade for compulsory 9 year education	

	Syllabus for IV, V, VI, VII, VIII, IX grade for compulsory 9 year education	
	Developing other programs for compulsory primary education (life skills, free-pupil activities, additional and supplementary class	2008-2009
	Developing programs for 9 year primary education of disabled persons	
Computerisation	Equipping primary schools with computers	2008
Secondary education Continuous training	Training of teachers	
	Training of management teams	2008-2009
	Professional education of teaching stuff (teachers, psychologists, directors )	
Developing curriculum	Developing programs for 4 <sup>th</sup> year of reformed 4 year vocational education	2008-2009
	Reforming of 3 year secondary vocational education	2008-2009
Reform activities	Concept of compulsory secondary education Training of teaching stuff	2008
	Reform of 2 year and 3 year vocational education	2009
	Concept of post-secondary education	2008
	Developing of curriculum for post-secondary education	2008-2010
	Developing modular packages for vocational training, additional training and retraining	2008
Translation of curricula on Albanian language	Translation of the concept on Albanian	2008 – 2009

	Translation of curricula of vocational education of 3 year and 4 year vocational education	
Continuous training of counsellors form vocational education and teachers from vocational education	Professional educational of of counsellors Didactic training of teaching stuff for theory and practice	2008 – 2010
National framework for vocational training	Framework for vocational training of 4 level Development of standard for professions	2008 2008 - 2010
Quality in education	External knowledge examination (state matriculation exam)	2008
	Development of standard and national framework for vocational training in line with European framework of vocational training	2008 -2009
	Equipping schools	2008
	Adoption of Law on Adult education	2007
	Development of centers for Adult education	2008
	External knowledge examination (national assessment)	2007- 2009
Institutional strengthening	Constituting of National Council for Vocational education and training	2007
	Operational start of the Center for Vocational education and training	2008
	Strengthening of State Education Inspectorate Strengthening State Exam center	2007-2008 2008 - 2010
Increasing the scope of secondary education	Stimulative measures for increasing of high school enrolment focusing on risk groups	2008
Computersation	Equipping high schools with computers	2008

Environment		
Policy goal	Proposed measures	Dead line

Integration of environmental issues into other relevant sector policies towards establishment of sustainable development; Introduction of a system for integrated pollution prevention and control (IPPC);	<i>Development and adoption of the National Strategy for Sustainable Development with Action Plan of the Republic of Macedonia;</i>	2008
	Development of National Strategy for Environmental Investments	2008
	Development of State of Environment Report	2010
	Development of Review of the State of the Environment	2009
	Preparation and adoption of secondary environmental legislation deriving from enacted laws	2008-2010
	Implementation of the Prespa Park Project "Integrated management of ecosystems in Prespa Lakes Basin, Macedonia, Greece and Albania", GEF/UNDP donation	2008-2010
Improvement of the national system and procedures for environmental impact assessment	Strengthening of capacities in relation to EIA on central level – training;	2008-2010
Development of integrated pollution prevention and control system;	Strengthening of the IPPC unit under the MOEPP and the corresponding units in the local self-governments, including increased staff and their training;	2008-2010
Public awareness increase;	Education in environment – Project green package;	2008
	Implementation of thematic campaigns aimed at public awareness improvement	2008-2010
Establishment of National Environmental Information System (NEIS)	Implementation of the Environmental Data Management Strategy-development of software component under the National Environmental Information System (NEIS)	2008
	Maintenance and updating of the Cadastre of air polluters and pollutants	2008-2010
	Updating of the Cadastre of wastewater polluters	2009-2010
	Establishment of Cadastre and Map of protected areas	2009-2010
	Establishment of Cadastre and Map of soil polluters	2010
	Establishment of Cadastre and Map of noise generators	2010

Introduction of eco-labelling criteria	Development of Feasibility Studies for adoption of eco-criteria for products and services	2008-2010
Monitoring of activities under international and bilateral agreements	Implementation of projects under the Clean Development Mechanism - Kyoto Protocol;	2008-2010
	Development of the Second National Communication on Climate Change;	2008
	Ozone layer protection;	2008
	Implementation of the National Plan for POPs elimination and reduction - Elimination of PCB in the Republic of Macedonia;	2008-2010
Air quality improvement through reducing the emissions of the basic pollutants from the relevant sectors;	Development of National Plan for ambient air protection	2008-2009
Strengthening the process of air quality monitoring and assessment; Establishment of integrated monitoring and data management	Finalization of the State Automatic Air Quality Monitoring system in rural areas and its regular maintenance	2008-2010
	Upgrading of the system for automatic data collection by procurement of software for automatic data validation from the air monitoring system;	2008
Establishment of an integrated waste management system;	Development of Waste Management Strategy	2008
	Development of local plans and for municipal and other types of non-hazardous waste management;	2008-2010
	Improvement of waste management infrastructure	2008-2010
	Development of Feasibility Study and other technical documentation for regional landfills;	2008-2010
	Termination and revitalization of illegal dumping sites, and development of transitory landfills;	2008-2010
	Establishment of waste monitoring network - Preparation and ongoing upgrading of plans for waste monitoring on both central and local levels;	2008-2010

Establishment of a system for integrated water resources management;	Preparation of national strategy for waters, as well as plans for integrated river basin districts management;	2008-2010
	Establishment of ground waters monitoring;	2008
Integrated Waste water management	Development of technical documentation and construction of waste water treatment systems and sewerage networks;	2008-2010
Establishment of an integrated system for nature protection and biodiversity preservation, in accordance with the EU standards and international agreements;	Development of Nature Protection Strategy;	2008
	Development of Red List and Red Book;	2009-2010
	Valorisation and Revalorization of natural heritage and its categorization;	2008-2010
	Development of National Monitoring Programme for biodiversity components and indicators of biodiversity;	2008
	Preparation of documentation and analysis for NATURA 2000 establishment;	2008
Integrated management of National Parks;	Development of plans for National Parks Management;	2008-2010
Rehabilitation and revitalization of industrial hot-spots;	Development of and projects for industrial hot-spots and funding provision;	2008-2010
	Maintenance of the wastewater treatment plant in Jegunovce - treatment of Cr <sup>6+</sup> containing wastewater	2008-2010
13. Establishment of system and national legislation for integrated chemicals management;	Strengthening the capacity of industry for chemicals amangement in accordance with the new EU legislation (training)	2009
Safe management of genetically modified	Strengthening of institutional and human capacities for GMO management;	2009-2010

organisms (GMO);		
	Implementation of the measures under the national biosafety framework;	2009-2010
Implementation of the Spatial Plan of the Republic of Macedonia	Development of spatial plans;	2008-2010
Promotion of the GIS	Production, designing, updating, distribution and presentation of spatial data, in accordance with the current needs of the Ministry	2008-2010
	Development and adoption of the Law on standards for production, designing, updating, distribution and presentation of spatial data	2008-2009
Implementation of the Spatial Plan of the Republic of Macedonia	Development of spatial plans;	2008-2010
<b>JUDICIARY SYSTEM REFORM</b>		
<b>Goal</b>	<b>Measures</b>	<b>Period</b>
Establishment and commencement of operation of the new Judicial Council of RM in accordance with the new legal competences	Completion of the composition of the Judicial Council with members elected by the Assembly of RM	2007
	Extension and equipping of the facility of the Judicial Council of RM	2007
Implementation and application of the new Law on Courts	Establishment of the Court of Appeal in Gostivar	2007
	Training of judges and court administration regarding the Court Rules of Procedure	2007
	Drawing up a feasibility study and project files on construction of a new court facility in Skopje	2007
	Drawing up project files on reconstruction and modernisation of 11 courts with extended powers	2007

Training of judges and public prosecutors	Conducting of initial training for the first generation of judges and public prosecutors in the Training Academy for Judges and Prosecutors (TAJP)	2008
	Completion of the process of staffing of TAJP	2010
	Drawing up and implementation of the strategy on management of the Academy budget	2008
	Conducting analysis on the needs for infrastructure, furniture, computer equipment, services for the Academy and premises for distant learning	2008
	Designing and establishment of an internal IT system of the Academy	2008
	Creation and implementation of the Academy efficiency assessment	2008
	Introduction and organisation of legal research within the Academy and a Documentation Section and a Library	2008
	Realisation of study visits in relevant legal training centres in Europe for the Academy staff	2008
Strengthening the planning and court budget management mechanisms and promotion of the status and position of judges and court officials	Law Amending the Law on Court Budget	2007
	Preparation of an automatic input for annual court budgets; generation of analytical reports	Continuously
	Monitoring and reporting of capital investments and expenditures for all courts and provision of functional analysis of court operations	Continuously
	Law on Judges' Salaries	2007
	Law on Court Service	2007



Promotion of the system for execution of court verdicts	Designing and development of a software application for network connection of the Executors Chamber and the Ministry of Justice	2010
	Conducting of continuous training of the organisational structure employees of the Ministry of Justice in charge of control and supervision of executors' performance	Continuously
	Evaluation of the effects of the adoption of the Law on Execution	2008
Implementation of the Law on Mediation	Opening two new mediation centres	2007
	Opening a mediation centre in Gostivar	2007
	Training of mediators	Continuously
Operability of the constitutional provision and the provisions of the Law on Offences	Evaluation of the effects of the adoption of the Law on Offences	2008
	Harmonisation of all the laws on the basis of which an authority or an organisation and another body with public powers may pronounce sanctions for offences	2007
	Drawing up unified forms for the needs of the bodies acting upon offences	2007
Implementation of the modified concept on court protection against administrative acts	Implementation of the Law on Administrative Disputes	2007-2008
	Establishment of an Administrative Court	2007
	Evaluation of the effects of the adoption of the Law on Administrative Disputes	2009
Implementation of the Constitutional amendments in the Public Prosecutor's Office area and strengthening the Public Prosecutor's powers in the pre-investigation and the investigation procedure	Adoption of a Law on Public Prosecutor's Office	2007
	Adoption of bylaws implementing the Law on Public Prosecutor's Office	2008
	Adoption of a Law on Public Prosecutors Council	2007

	Establishment of a Public Prosecutors Council	2007-2008
	Establishment of a Higher Public Prosecutor's Office in Gostivar	2008
	Transfer of the investigation in the competence of investigation judges to the Public Prosecutor's Office	2009-2010
Further strengthening the capacity of the legal system, so that it could deal with the organised and economic crime	Further strengthening of the institutional capacity of the Unit in charge of combating organised crime and corruption and its transformation into separate Prosecutor's Office in accordance with the new Law on Public Prosecutor's Office	Continuously
	Staffing and material and technical equipping of the Unit in charge of combating organised crime and corruption (Public Prosecutor's Office in charge of combating organised crime and corruption) in accordance with its improved status and competences following the adoption of the Law on Public Prosecutor's Office	Continuously
	Preparation and conducting of modules for training seminars in the area of organised crime, drug trafficking, corruption, economic and financial crime, customs crime, e-crime, trafficking in humans, money laundering, financial investigations, special investigation measures, witness protection and witnesses-collaborators, international cooperation tools, forensics and case management for representatives of the Unit and other bodies with specific powers	2008
	Specialized training for Unit members for strengthening their English language speaking skills (legal terminology)	2008
	Analysis of the needs for provision of hardware, software, human resources, structure and logistics for development of electronic database for organised crime and corruption	2008
	National plan on launching a system for collection, monitoring and exchange of data on organised crime and corruption	2008
	Putting into operation of the system for collection, monitoring and exchange of data on organised crime and corruption and common access to databases	2008
	Strengthening the institutional capacity of specialised units for organised crime within the courts	2008

	Premises, equipment, staff, training	2008
Promotion of the criminal legislation system	Law Amending the Criminal Code	2008
	New Law on Criminal Procedure	2008
	Decision on classification of criminal deeds	2008
	Transferring criminal records from the Ministry of Interior to courts	2010
Promotion of the system for free legal assistance	Adoption of a Law on Free Legal Assistance	2008
Establishment of efficient and functional information technology in legal institutions	Activities regarding implementation of the ICT Strategy in Legal Institutions 2007-2010	2008-2010
Promotion of the legislation in the administrative area due to simplification of the administrative procedure and decreasing of procedure deadlines	Analysis of the implementation of the Law on General Administrative Procedure	2008
	Law Amending the Law on General Administrative Procedure	2008
	Directions on the administrative procedure forms	2008
1. IMPROVEMENT OF THE HEALTH CONDITION OF THE POPULATION, WITH A SPECIAL EMPHASIS ON THE VULNERABLE GROUPS		
Goal of the policy	Proposed measures	Deadline
Ensuring better access and non-institutional forms of health care for persons having mental health problems.	Continuation of the deinstitutionalisation process for treatment of such people in mental health community centres./ Establishment of new mental health daily centres	Continuously
Reduction of the mortality, disability and	Strengthening of the primary prevention of chronic non-contagious diseases,	Continuously

early mortality caused by most frequent non-contagious diseases	- improvement of the conditions for early diagnosing, timely and appropriate treatment and rehabilitation within the secondary and tertiary prevention	Continuously
	- development of screening for early diagnosing and prevention of malignant diseases	2009
	- drawing up of a national programme for control of malignant diseases	2009
	- implementation of measures for early identification of persons having diabetes and appropriate treatment thereof	2010
	- adoption of a national programme on diabetes	2010
	- adoption of a strategy for non-contagious diseases in accordance with the European Strategy of WHO for prevention and control of non-contagious diseases, which united all relevant	2008
2. IMPROVEMENT OF THE ORGANISATION OF HEALTH CARE		
Goal of the policy	Proposed measures	Deadline
Securing equal access, primarily of the vulnerable groups, to all the basic health services and target preventive measures	-defining of the basic package of health services within the obligatory health insurance provided by the selected doctor and nurse	2008
	completion of the process of the harmonisation of the curricula of the Faculty of Medicine and the nurse schools with the EU curricula	2008
	-Development of daily hospitals and ambulant solution to health problems	Continuously
	- reorganisation of the emergency medical service	2009
	- strengthening the leading and management system of hospitals (health management is to be introduced)	2008
3. IMPROVEMENT OF THE SPECIALISED HEALTH CARE - PUBLIC HEALTH		
Goal of the policy	Proposed measures	Deadline
Reorganisation, modernisation and strengthening the capacities of the state and regional health care offices	- strengthening the role of the network of health care offices in the process of creation of the health policy	Continuously
	- improvement of the quality of collecting, processing and analysis of data	Continuously
	- establishment of an Institute for Public Health	2008
	- drawing up of a public health strategy	2008
Improvement of the health of young people and adolescents	- adoption of a Strategy for Adolescent Health	2008
	- drafting of specific programme activities for health improvement and decrease of the harmful effects on the health	continuously

	cased by consumption of substances causing addiction such as tobacco, alcohol and psychoactive drugs.	
Provision of safe food	development of an integrated system for safety and control of food	2008
Organisation of a national public health network in accordance with the adopted strategy on health, healthy living and working environment and work safety in the Republic of Macedonia.	- increasing the number of preventive and decreasing the number of curative activities, such as diagnosis and treatment of diseases and work-related injuries	Continuously
	- connection of the labour medicine services and the Labour Medicine Institute as a national public health network	Continuously
	- Adoption of a strategy on health and work safety in small and medium-sized enterprises.	2009
IMPROVEMENT OF THE PLANNING AND QUALITY OF HUMAN RESOURCES		
Goal of the policy	Proposed measures	Deadline
The leading and management of the health sector should focus on providing quality health care	- Analysis of the situation and drafting of a long-term projection of the medical staff needs	2008
	- Harmonisation of the curricula for university, postgraduate and specialisation studies of all profiles of medical staff with the EU legislation	2008
	- Territorial staff distribution	Continuously
	- continuous implementation of the licensing and relicensing process in accordance with the official criteria.	Continuously
IMPROVEMENT OF THE HEALTH CARE QUALITY		
Goal of the policy	Proposed measures	Deadline
Introduction of a complete system for providing health care quality control	continuous harmonisation of the curricula for university and postgraduate studies in accordance with the EU standards and practices	Continuously
	- drawing up of accredited and courses for continuous education	Continuously

IMPROVEMENT OF THE HEALTH CARE FINANCING		
Goal of the policy	Proposed measures	Deadline
Provision of a sustainable mechanism on financing and distribution of resources in the health system	- cooperation of the HIF with the MF and MLSP due to improvement of the collection of contributions by means of establishment of a system for common collection of contributions	2008-2009
	- reorganisation of HIF in accordance with the action plan on improvement of HIF functions	
	- drawing up of a plan on solving the issue of outstanding debts in the health sector	
	- defining of the basic package of health services	
	- conclusion of contracts with providers of health services following the creation of a medical map	
7. IMPROVEMENT OF THE PHARMACEUTICAL SERVICES		
Goal of the policy	Proposed measures	Deadline
Providing the citizens of RM with safe and quality medicines	- revision and regular updating of the positive list of medicines	Continuously
	- determination of reference prices of medicine included in the positive list according to their generics, dosage and form	2008
	- drawing up of electronic prescription form in order to monitor the prescribing of medicines by means of information technology,	2009
	- development of good pharmaceutical practice guides so as to provide pharmaceutical services in four functional areas	2009
	- continuation of the harmonisation of the medicine-related national legislation with the EU legislation	Continuously
	-strengthening the functions of the Bureau for Medicines and setting up of an Agency for Medicines	Continuously
8.IMPROVEMENT OF THE HEALTH INFORMATION SYSTEM		
Goal of the policy	Proposed measures	Deadline
Establishment of health information and communication systems which will enable flow and exchange of information	- completion of the information system in HIF,	2008
	-implementation of ICT in PHC as well- introduction of obligatory electronic notification to HIF and the health care offices	2008
	- introduction of an electronic health card	2009

	- Introduction of diagnostically related groups and electronic health records	2009
9. HEALTH CARE REFORM MANAGEMENT		
Goal of the policy	Proposed measures	Deadline
Provision of support by the relevant institutional infrastructure, leadership processes and innovative leadership	- strengthening of the capacities of the Ministry of Health for strategic planning and health policy creation	Continuously
	- strengthening of the management capacities in all the health institutions	Continuously
	- conducting public information campaigns, web site and printed materials so as to provide information to the public regarding health, health care and reform	Continuously
	- conducting research on patient satisfaction from the health services	Continuously

<b>5 FISCAL IMPLICATIONS</b>			(denar million)	
<b>TOTAL</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Net direct effects on the budget	-3121,52	-5920,73	-6916,71	-7664,50
Direct effects on the expenditures	6421,42	11834,13	11172,71	11950,30
Direct effects on the revenues	3299,90	5913,40	4256,00	4285,80
<b>Total industry and energy</b>				
Net direct effects on the budget	-57,30	-155,00	-44,80	-36,70
Direct effects on the expenditures	81,30	198,10	87,90	91,80
Direct effects on the revenues	24,00	43,10	43,10	55,10
<b>Industry</b>				
<b>Measure – Strategy on industrial policy</b>				
Implementation	X	X	X	X
Net direct effects on the budget	0,00	23,20	13,70	12,00
Direct effects on the expenditures	0,00	27,00	17,50	15,80
Direct effects on the revenues	0,00	3,80	3,80	3,80
<b>Measure - Industrial policy – internationalization</b>				
Implementation	X	X	X	X
Net direct effects on the budget	0,00	-11,50	-11,50	-11,50
Direct effects on the expenditures	0,00	3,80	3,80	3,80
Direct effects on the revenues	0,00	15,30	15,30	15,30
<b>Measure – Support and development of clusters</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-42,00	-42,00	-12,00	-4,00
Direct effects on the expenditures	66,00	66,00	36,00	40,00
Direct effects on the revenues	24,00	24,00	24,00	36,00
<b>Enforcement of laws within free movement of goods and consumer protection</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-11,30	-11,30	-12,60	-14,20
Direct effects on the expenditures	11,30	11,30	12,60	14,20
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Power</b>				
Implementation	X	X	X	X
<b>Strengthening the capacities of the Energy Agency</b>				
Net direct effects on the budget	-4,00	-4,00	-4,00	-4,00



Direct effects on the expenditures	4,00	4,00	4,00	4,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Implementation</b>				
Strategy for complex development of the Republic of Macedonia	X			X
Net direct effects on the budget	0,00	-13,00	-3,00	-3,00
Direct effects on the expenditures	0,00	13,00	3,00	3,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Financial support for preparation of specific energy projects</b>				
<b>Implementation</b>				
Net direct effects on the budget	0,00	-10,00	-10,00	-10,00
Direct effects on the expenditures	0,00	10,00	10,00	10,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Privatization of the production part of the electricity system</b>				
<b>Implementation</b>				
Net direct effects on the budget	0,00	-63,00	-1,00	-1,00
Direct effects on the expenditures	0,00	63,00	1,00	1,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Development of SMEs, support of the entrepreneurial development and development of the tourist offers</b>				
	2007	2008	2009	2010
Total SMEs and entrepreneurship				
Net direct effects on the budget	-111,40	-170,00	-208,00	-218,00
Direct effects on the expenditures	111,40	170,00	208,00	218,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Support to the SMEs</b>				
Net direct effects on the budget	-50,00	-71,00	-102,00	-105,00
Direct effects on the expenditures	50,00	71,00	102,00	105,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Strengthening the institutional infrastructure</b>				
<b>Implementation</b>				
Net direct effects on the budget	-14,00	-20,00	-26,00	-31,00
Direct effects on the	14,00	20,00	26,00	31,00

expenditures				
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Improvement of business environment and access to finances</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-24,00	-34,00	-34,00	-36,00
Direct effects on the expenditures	24,00	34,00	34,00	36,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Tourism promotion</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-15,40	-35,00	-36,00	-36,00
Direct effects on the expenditures	15,40	35,00	36,00	36,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Tourism development measures</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-8,00	-10,00	-10,00	-10,00
Direct effects on the expenditures	8,00	10,00	10,00	10,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Financial sector</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Establishment of Insurance Supervision Agency</b>				
Implementation	X	X	X	X
Net direct effects on the budget	0,00	30,00	35,00	0,00
Direct effects on the expenditures	0,00	30,00	35,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Labour market</b>				
	2007	2008	2009	2010
	X	X	X	X
Net direct effects on the budget	-297,90	-396,66	-591,85	-611,40
Direct effects on the expenditures	297,90	629,06	748,75	768,30
Direct effects on the revenues	0,00	232,40	156,90	156,90
<b>Establishment of a system of voluntary capital funded insurance</b>				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-7,50	-22,75	-52,00
Direct effects on the expenditures	0,00	7,50	22,75	52,00
Direct effects on the revenues	0,00	0,00	0,00	0,00

Monitoring the situation in the area of allowance and policy-making				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-27,00	-28,00	-30,00
Direct effects on the expenditures	0,00	27,00	28,00	30,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Promotion of national policies in the area of social inclusion				
Implementation	X	X	X	X
Net direct effects on the budget	-250,00	-280,00	-350,00	-350,00
Direct effects on the expenditures	250,00	280,00	350,00	350,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Reduction of family violence				
Implementation	X	X	X	X
Net direct effects on the budget	-6,70	-7,00	-7,00	-8,00
Direct effects on the expenditures	6,70	7,00	7,00	8,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Protection of children				
Implementation	X	X	X	X
Net direct effects on the budget	-12,70	-14,80	-20,00	-20,00
Direct effects on the expenditures	12,70	14,80	20,00	20,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Introduction of a off-institutional protection				
Implementation	X	X	X	X
Net direct effects on the budget	-7,20	-7,80	-8,00	-8,00
Direct effects on the expenditures	7,20	7,80	8,00	8,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of a shelter centre for refugees and asylum seekers				
Implementation		X	X	X
Net direct effects on the budget	-21,30	-11,50	-15,00	-16,10
Direct effects on the expenditures	21,30	11,50	15,00	16,10
Direct effects on the revenues	0,00	0,00	0,00	0,00
Modernization of the Employment Agency and improvement of the employment conditions				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-5,86	-28,00	-4,20

Direct effects on the expenditures	0,00	38,86	48,00	24,20
Direct effects on the revenues	0,00	33,00	20,00	20,00
Support and implementation of the Employment Strategy and JAP				
Implementation		X	X	X
Net direct effects on the budget	0,00	-9,30	-67,10	-77,10
Direct effects on the expenditures	0,00	61,70	70,00	80,00
Direct effects on the revenues	0,00	52,40	2,90	2,90
Encouraging the employment of youth, women and the long-term unemployed				
Implementation		X	X	X
Net direct effects on the budget	0,00	-25,90	-46,00	-46,00
Direct effects on the expenditures	0,00	172,90	180,00	180,00
Direct effects on the revenues	0,00	147,00	134,00	134,00
<b>Agriculture</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
TOTAL				
Net direct effects on the budget	-1006,12	-1339,32	-1598,26	-1315,00
Direct effects on the expenditures	1742,12	2679,32	2898,26	2799,00
Direct effects on the revenues	736,00	1340,00	1300,00	1484,00
Strengthening the administration				
Implementation	X	X	X	X
Net direct effects on the budget	-74,12	-74,12	-94,00	40,00
Direct effects on the expenditures	92,12	92,12	94,00	94,00
Direct effects on the revenues	18,00	18,00	0,00	134,00
Forestry				
Implementation	X	X	X	X
Net direct effects on the budget	-182,00	-267,00	-285,00	-285,00
Direct effects on the expenditures	200,00	285,00	285,00	285,00
Direct effects on the revenues	18,00	18,00	0,00	0,00
Agricultural and rural development (State Agricultural Inspectorate, Financial Services in Agriculture, Land Policy, Rural Development)				
Implementation	X	X	X	X
Net direct effects on the budget	-50,00	-143,50	-157,86	-160,00
Direct effects on the expenditures	50,00	143,50	157,86	160,00
Direct effects on the revenues	0,00	0,00	0,00	0,00

<b>Veterinary services</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-350,00	-330,00	-505,80	-500,00
Direct effects on the expenditures	350,00	330,00	505,80	500,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Protection of plants and seeds</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-50,00	-48,70	-55,60	-60,00
Direct effects on the expenditures	50,00	48,70	55,60	60,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Water economy</b>				
Implementation	X	X	X	X
Net direct effects on the budget	-300,00	-476,00	-500,00	-350,00
Direct effects on the expenditures	1000,00	1780,00	1800,00	1700,00
Direct effects on the revenues	700,00	1304,00	1300,00	1350,00
<b>Transport and Communication</b>				
	2007	2008	2009	2010
<b>Total for Transport and Communication</b>				
Net direct effects on the budget	-277,60	-1545,00	-2335,00	-2784,00
Direct effects on the expenditures	2259,50	5276,00	4707,00	5095,00
Direct effects on the revenues	1981,90	3731,00	2372,00	2311,00
<b>Establishment of National Council for IT Society, maintenance of the IT Department</b>				
Net direct effects on the budget	0,0	-741,0	-741,0	-741,0
Direct effects on the expenditures	0,0	741,0	741,0	741,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
<b>Strengthening the capacities of the Agency for Electronic Communications</b>				
Implementation	X	X	X	-
Net direct effects on the budget	-10,0	-10,0	0,0	0,0
Direct effects on the expenditures	10,0	10,0	0,0	0,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
<b>Construction of the Skopje ring road</b>				
Implementation	X	X	X	-
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the	1372,00	1372,00	0,00	0,00

expenditures				
Direct effects on the revenues	1372,00	1372,00	0,00	0,00
<b>Construction of the Kumanovo – Tabanovce highway</b>				
Implementation	-	-	X	-
Net direct effects on the budget	-94,00	-197,00	-200,00	-161,00
Direct effects on the expenditures	94,00	197,00	200,00	161,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Construction of the E-75 highway – Corridor X</b>				
Implementation	-	X	X	X
Net direct effects on the budget	-19,50	-397,00	-569,00	-694,00
Direct effects on the expenditures	19,50	1868,00	2040,00	2165,00
Direct effects on the revenues	0,00	1471,00	1471,00	1471,00
<b>Investments in railway infrastructure</b>				
Implementation	-	X	X	X
Net direct effects on the budget	-154,10	-200,00	-325,00	-553,00
Direct effects on the expenditures	200,00	475,00	613,00	780,00
Direct effects on the revenues	45,90	275,00	288,00	227,00
<b>Bridges fortification</b>				
8.Strengthening the bridges	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	564,00	613,00	613,00	613,00
Direct effects on the revenues	564,00	613,00	613,00	613,00
<b>Construction of local roads</b>				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-500,00	-635,00
Direct effects on the expenditures	0,00	0,00	500,00	635,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Public administration reform</b>				
	2007	2008	2009	2010
Total for RJA	X	X	X	X
Net direct effects on the budget	-63,9	-78,4	-97,6	-95,5
Direct effects on the expenditures	82,9	90,4	106,4	103,5
Direct effects on the revenues	19,0	12,0	8,8	8,0
<b>Unit for support to the training of civil servants in Skopje</b>				

Implementation	-	X	X	X
Net direct effects on the budget	-6,50	-4,50	-4,50	-4,50
Direct effects on the expenditures	6,50	4,50	4,50	4,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Code of Ethics for the ministries				
Implementation				
Net direct effects on the budget	-1,00	-0,50	-0,50	0,00
Direct effects on the expenditures	1,00	0,50	0,50	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Design of a catalogue of government administration bodies and their services to the citizens (connected to the website <a href="http://www.uslugi.gov.mk">www.uslugi.gov.mk</a> )				
Implementation				
Net direct effects on the budget	-1,00	0,00	0,00	0,00
Direct effects on the expenditures	1,00	1,00	0,00	0,00
Direct effects on the revenues	0,00	1,00	0,00	0,00
Institutional improvement of administrative structures and strengthening the administrative capacity, including training at all levels				
Implementation	X	X	X	X
Net direct effects on the budget	-5,00	-11,00	-8,20	-12,00
Direct effects on the expenditures	15,00	22,00	17,00	20,00
Direct effects on the revenues	10,00	11,00	8,80	8,00
Improvement of the transparency and accountability of administration				
Implementation	X	X	X	X
Net direct effects on the budget	0,00	5,00	19,00	19,00
Direct effects on the expenditures	0,00	5,00	19,00	19,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of the Strategy for cooperation of the Government with the civil sector				
Implementation	X	X	X	X
Net direct effects on the budget	-3,00	-10,00	-15,00	-10,00
Direct effects on the expenditures	12,00	10,00	15,00	10,00
Direct effects on the revenues	9,00	0,00	0,00	0,00
Implementation of the Strategy for appropriate and equitable representation of members of minority ethnic communities in the public administration (including the judiciary) and public enterprises				
Implementation	X	X	X	X

Net direct effects on the budget	-45,00	-45,00	-50,00	-50,00
Direct effects on the expenditures	45,00	45,00	50,00	50,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Internet for all employees in the public administration.				
Implementation	X	X	X	X
Net direct effects on the budget	-0,40	-0,40	-0,40	0,00
Direct effects on the expenditures	0,40	0,40	0,40	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of Units for strategic planning and human resources in all government institutions				
Implementation	X	X	X	X
Net direct effects on the budget	-2,00	-2,00	0,00	0,00
Direct effects on the expenditures	2,00	2,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Development and initiatives for improvement of the legal framework				
Decentralisation				
Implementation	-	X		-
Net direct effects on the budget	0,00	0,45	0,00	0,00
Direct effects on the expenditures	0,00	0,45	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Improvement of the reform communication				
Implementation	-	x		-
Net direct effects on the budget	0,00	2,20	0,00	0,00
Direct effects on the expenditures	0,00	2,20	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of annual for training of civil servants in the municipalities				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	5,50	0,00	0,00
Direct effects on the expenditures	0,00	5,50	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Participation of local government units in the EU				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	1,90		
Direct effects on the	0,00	1,90		



expenditures				
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Expansion of the best practice for inter-municipal cooperation</b>				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,30		0,00
Direct effects on the expenditures	0,00	0,30		0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Establishment of a coordinative body and decision-making procedures</b>				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	3,00	0,00	0,00
Direct effects on the expenditures	0,00	3,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Regional development</b>				
	2007	2008	2009	2010
Total for regional development				
Net direct effects on the budget	0,0	555,3	1100,0	1700,0
Direct effects on the expenditures	0,0	555,3	1100,0	1700,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
<b>Drafting bylaws</b>				
Implementation	-	X		
Net direct effects on the budget	0,00	0,45	0,00	0,00
Direct effects on the expenditures	0,00	0,45	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Preparation of for development of plan regions</b>				
Implementation		x		
Net direct effects on the budget	0,00	4,80	0,00	0,00
Direct effects on the expenditures	0,00	4,80	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Restructuring of the Bureau for economically underdeveloped regions – fiscal implications of the Bureau for the 10 new employments in accordance with the NPAA are not calculated since positions to be filled are unknown</b>				
Implementation	-	X		
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the	0,00	0,00	0,00	0,00

expenditures				
Direct effects on the revenues	0,00	0,00	0,00	0,00
Realization of projects for even regional development; fiscal implications are planned in the draft budget calculation of the Bureau for Regional Development (2008)				
Implementation		x	X	x
Net direct effects on the budget	0,00	550,00	1100,00	1700,00
Direct effects on the expenditures	0,00	550,00	1100,00	1700,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Education</b>				
Total for education				
Net direct effects on the budget	-813,5	-1099,5	-414,7	-345,2
Direct effects on the expenditures	813,5	1099,5	414,7	345,2
Direct effects on the revenues	0	0	0	0
Primary education – concepts for mandatory nine-year education				
Net direct effects on the budget	-1	-1	-1	0
Direct effects on the expenditures	1	1	1	0
Direct effects on the revenues	0	0	0	0
Primary education – Curricula for the first grade for mandatory nine-year education				
Direct effects on the expenditures	-11	-1	-1	0
Net direct effects on the budget	11	1	1	0
Direct effects on the revenues	0	0	0	0
Curricula for second and third grade				
Net direct effects on the budget	0	0	-2	-2
Direct effects on the expenditures	0	0	2	2
Direct effects on the revenues	0	0	0	0
Development of curricula for new subjects in the mandatory education (religion, ethics, IT and English language)				
Net direct effects on the budget	-1,0	-1,0	-1,0	-1,0
Direct effects on the expenditures	1,0	1,0	1,0	1,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
Quality in education (national evaluation)				
Direct effects on the	0,0	-0,3	-0,3	-0,3

expenditures				
Net direct effects on the budget	0,0	0,3	0,3	0,3
Direct effects on the revenues	0,0	0,0	0,0	0,0
Teacher training				
Net direct effects on the budget	-8,0	-9,1	-6,0	-2,0
Direct effects on the expenditures	8,0	9,1	6,0	2,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
Training of management teams				
Net direct effects on the budget	-1,0	-1,0	-0,5	0,0
Direct effects on the expenditures	1,0	1,0	0,5	0,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
Development of curricula for III and IV year of the vocational four-year education				
Net direct effects on the budget	-6	-6	-6	0
Direct effects on the expenditures	6	6	6	0
Direct effects on the revenues	0	0	0	0
Reforms in the two-year and three-year vocational education and training, sports gymnasium and for pupils with special needs, as well as translations of the curricula in Albanian language				
Net direct effects on the budget	-4	-4	-2,5	-2,7
Direct effects on the expenditures	4	4	3	3
Direct effects on the revenues	0	0	0	0
State exam				
Net direct effects on the budget	0	-15,3	-16,2	-17,5
Direct effects on the expenditures	0	15	16	18
Direct effects on the revenues	0	0	0	0
Translation and printing of programmatic documents in the languages of the communities				
Net direct effects on the budget	0	-1,6	-1,8	-1,1
Direct effects on the expenditures	0	2	2	1
Direct effects on the revenues	0	0	0	0
Preparation of National framework of professional qualifications up to fourth level – ISKET, development of standards for professions				
Net direct effects on the budget	-0,3	-0,3	-0,6	-0,8

Direct effects on the expenditures	0,3	0,3	0,6	0,8
Direct effects on the revenues	0,0	0,0	0,0	0,0
Financing the scientific and research activity with budget funds				
Net direct effects on the budget	0	-99,5	-14,5	-14,5
Direct effects on the expenditures	0	100	15	15
Direct effects on the revenues	0	0	0	0
Raising the level of the student standard – new student home				
Net direct effects on the budget	-1	-30	-120	0
Direct effects on the expenditures	1	30	120	0
Direct effects on the revenues	0	0	0	0
Promotion of European cooperation in the quality assurance				
Net direct effects on the budget	-15	-62	-62	-62
Direct effects on the expenditures	15	62	62	62
Direct effects on the revenues	0	0	0	0
Diploma supplement				
Net direct effects on the budget	-2	-2	-2	-2
Direct effects on the expenditures	2	2	2	2
Direct effects on the revenues	0	0	0	0
Law on Establishment of State University in Stip				
Net direct effects on the budget	-15	-15,1	0	0
Direct effects on the expenditures	15	15	0	0
Direct effects on the revenues	0	0	0	0
Law on University Education				
Net direct effects on the budget	0	-71	-138	-200
Direct effects on the expenditures	0	71	138	200
Direct effects on the revenues	0	0	0	0
Introduction of ECTS				
Net direct effects on the budget	-7,2	-7,2	-7,2	-7,2
Direct effects on the expenditures	7,2	7,2	7,2	7,2
Direct effects on the revenues	0,0	0,0	0,0	0,0

<b>Ranking of higher-education institutions by foreign independent companies</b>				
Net direct effects on the budget	-1	-1,1	-1,1	-1,1
Direct effects on the expenditures	1	1	1,1	1
Direct effects on the revenues	0	0	0	0
<b>Participation in the programme of the community "Integrated programme for life-long learning"</b>				
Net direct effects on the budget	0,0	-31,0	-31,0	-31,0
Direct effects on the expenditures	0,0	31,0	31,0	31,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
<b>Computerization of primary schools and high schools</b>				
Net direct effects on the budget	-740,0	-740,0	0,0	0,0
Direct effects on the expenditures	740,0	740,0	0,0	0,0
Direct effects on the revenues	0,0	0,0	0,0	0,0
<b>Environment</b>				
	2007	2008	2009	2010
Net direct effects on the budget	-21,5	-72,8	-58,0	-49,7
Direct effects on the expenditures	114,5	170,7	140,2	120,5
Direct effects on the revenues	93,0	97,9	82,2	70,8
<b>Preparation and adoption of National Strategy for Sustainable Development with the AP of the RM</b>				
Implementation	-	X		-
Net direct effects on the budget	-1,00	-1,00	0,00	0,00
Direct effects on the expenditures	55,00	25,00	0,00	0,00
Direct effects on the revenues	54,00	24,00	0,00	0,00
<b>Preparation of National Strategy for Investments in Environment</b>				
Implementation	-	x		-
Net direct effects on the budget	-0,50	-1,70	0,00	0,00
Direct effects on the expenditures	2,30	9,50	0,00	0,00
Direct effects on the revenues	1,80	7,80	0,00	0,00
<b>Preparation of Report on the environmental situation</b>				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	-1,00
Direct effects on the expenditures	0,00	0,00	0,00	1,00

Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of a review of the environmental situation				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	-0,50
Direct effects on the expenditures	0,00	0,00	0,00	0,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation and adoption of bylaws in the area of environment according to the adopted laws				
Implementation	-	X	X	X
Net direct effects on the budget	-0,50	-1,00	-1,00	-1,00
Direct effects on the expenditures	0,50	1,00	1,00	1,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of the project for Prespa Park "Integrated management with the eco-systems in the Prespa Lakes basin, Macedonia, Greece and Albania, donation GEF/UNDP				
Implementation	-	X	X	X
Net direct effects on the budget	-0,20	-3,60	-2,00	-2,00
Direct effects on the expenditures	9,20	26,10	47,00	38,00
Direct effects on the revenues	9,00	22,50	45,00	36,00
Strengthening the EIA unit in the Ministry of Environment, including increase in the staff and their training				
Implementation	-	X		-
Net direct effects on the budget	-0,60	-1,10	-1,10	-1,10
Direct effects on the expenditures	0,60	1,10	1,10	1,10
Direct effects on the revenues	0,00	0,00	0,00	0,00
Environmental education – Green Package Project				
Implementation	-	x		-
	0,00	0,00	0,00	0,00
Direct effects on the expenditures	12,00	6,00	0,00	0,00
Direct effects on the revenues	12,00	6,00	0,00	0,00
Realization of the theme campaigns for raising public awareness				
Implementation	-	X	X	X
Net direct effects on the budget	-1,00	-2,00	-2,00	-2,00
Direct effects on the expenditures	1,00	2,00	2,00	2,00
Direct effects on the revenues	0,00	0,00	0,00	0,00

Preparation of a National Plan for Protection of Ambient Air				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-3,50	-1,20	0,00
Direct effects on the expenditures	0,00	3,50	1,20	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Completion of the State Automatic Monitoring System for ambient air quality with rural automatic monitoring stations and regular maintenance of the air monitoring system				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-5,75	-10,50	-10,50
Direct effects on the expenditures	0,00	5,75	10,50	10,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Upgrading the system for automatic data collection with procurement of software for automatic validation of the data from the air monitoring system				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-1,23	0,00	0,00
Direct effects on the expenditures	0,00	1,23	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of waste management strategy				
Implementation	-	x		-
X	0,00	-3,10	0,00	0,00
Direct effects on the expenditures	0,00	15,10	0,00	0,00
Direct effects on the revenues	0,00	12,00	0,00	0,00
Preparation of local plans and for management with utility and other types of non-dangerous waste				
Implementation	-	X	X	X
Net direct effects on the budget	-4,00	-4,00	-5,00	-5,00
Direct effects on the expenditures	4,00	4,00	5,00	5,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Improvement of waste management infrastructure				
Implementation	-	X	X	X
Net direct effects on the budget	-2,20	-5,00	-5,00	0,00
Direct effects on the expenditures	2,20	5,00	11,00	0,00
Direct effects on the revenues	0,00	0,00	6,00	0,00
Preparation of feasibility study and other technical documentation for regional landfills				
Implementation	-	X	X	X

Net direct effects on the budget	-2,90	-0,40	-0,40	-0,40
Direct effects on the expenditures	2,90	3,40	6,40	6,40
Direct effects on the revenues	0,00	3,00	6,00	6,00
Closure and revitalization of unplanned landfills and construction of interim landfills				
Implementation	-	X	X	X
Net direct effects on the budget	-1,00	-1,50	-1,50	-1,50
Direct effects on the expenditures	1,00	1,50	1,50	1,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of waste monitoring network – preparation and current upgrade of waste monitoring plans on central and local level				
Implementation	-	X		-
Net direct effects on the budget	0,00	-1,00	-1,00	-1,00
Direct effects on the expenditures	0,00	1,00	1,00	1,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Development of and projects for industrial hotspots and provision of financial resources for their realization				
Implementation	-	x		-
X	0,00	-3,00	-3,00	-3,00
Direct effects on the expenditures	0,00	3,00	3,00	3,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation				
Maintenance of the treatment station in Jegunovce - Wastewater treatment stations for waters polluted with Cr6+	-	X	X	X
Net direct effects on the budget	-1,00	-0,80	0,00	0,00
Direct effects on the expenditures	1,00	0,80	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of national strategy for waters and plans for integrated management with river basin areas				
Implementation	-	X	X	X
Net direct effects on the budget	0	-0,5	-1	-1
Direct effects on the expenditures	0	0,50	1,00	1,00
Direct effects on the revenues	0	0,00	0,00	0,00



Establishment of ground water monitoring - preparation of programme for ground water monitoring				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-1,00	0,00	0,00
Direct effects on the expenditures	0,00	1,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of technical documentation and construction of of wastewater treatment systems				
Implementation	-	X	X	X
Net direct effects on the budget	-1,30	-3,50	-4,00	-4,00
Direct effects on the expenditures	1,30	3,50	10,00	16,00
Direct effects on the revenues	0,00	0,00	6,00	12,00
Implementation of water programme – Swiss donation				
Implementation	-	X	X	X
Net direct effects on the budget	-2,00	-2,92	0,00	0,00
Direct effects on the expenditures	14,00	14,92	0,00	0,00
Direct effects on the revenues	12,00	12,00	0,00	0,00
Preparation of nature conservation strategy				
Implementation	-	X	X	X
Net direct effects on the budget	-0,20	-3,00	0,00	0,00
Direct effects on the expenditures	0,20	3,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of Red List and Red Book				
Implementation	-	X		-
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	0,00	0,00	12,00	12,00
Direct effects on the revenues	0,00	0,00	12,00	12,00
Valuation and revaluation of natural heritage and its categorization				
Implementation	-	X		-
Net direct effects on the budget	-0,60	-1,50	-1,50	-1,50
Direct effects on the expenditures	0,60	1,50	1,50	1,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Development of national programme for monitoring the biodiversity components and indicators				
Implementation	-	X	X	X

Net direct effects on the budget	0,00	-1,00	0,00	0,00
Direct effects on the expenditures	0,00	1,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of documentation and analysis of establishment of NATURA 2000.				
Implementation	-	X	X	X
Net direct effects on the budget	0	-1	0	0
Direct effects on the expenditures	0,00	1,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of plans for management with national parks				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	0,00	0,60	0,60	0,60
Direct effects on the revenues	0,00	0,60	0,60	0,60
Strengthening the capacities of the industry for management with chemicals in accordance with the new EU regulation (training)				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-1,00	0,00
Direct effects on the expenditures	0,00	0,00	1,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Strengthening the institutional and human capacity for management with GMO				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-0,30	-0,30
Direct effects on the expenditures	0,00	0,00	0,30	0,30
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of measures from the national framework for biosafety				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-3,00	-3,00
Direct effects on the expenditures	0,00	0,00	3,00	3,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation and implementation of a programme for measuring and monitoring the noise levels and improvement of the noise monitoring system and information system				
Implementation	-	X		-
Net direct effects on the budget	0,00	-4,00	-1,00	0,00
Direct effects on the	0,00	4,00	1,00	0,00

expenditures				
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of the Strategy for management with environmental data – development of the software component of the national information system on the environment				
Implementation	-	X		-
Net direct effects on the budget	0,00	-1,20	-0,50	-0,50
Direct effects on the expenditures	0,00	1,20	0,50	0,50
Direct effects on the revenues	0,00	0,00	0,00	0,00
Maintenance and improvement of the Cadastre for air pollutants				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-2,00	0,00	0,00
Direct effects on the expenditures	0,00	2,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation				
Maintenance and improvement of the Cadastre for pollutants – solid waste	-	X	X	X
Net direct effects on the budget	0	0	-0,6	-0,6
Direct effects on the expenditures	0	0,00	0,60	0,60
Direct effects on the revenues	0	0,00	0,00	0,00
Superstructure of Cadastre for waste water pollutants				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-0,80	-0,80
Direct effects on the expenditures	0,00	0,00	0,80	0,80
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of a Cadastre and a map of protected areas				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	-0,80	-0,40
Direct effects on the expenditures	0,00	0,00	0,80	0,40
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of a Cadastre and a map of soil pollutants				
Implementation	-	X		-
Net direct effects on the budget	0,00	0,00	0,00	-1,20
Direct effects on the	0,00	0,00	0,00	1,20

expenditures				
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of a Cadastre and a map of noise sources				
Implementation	-	X		-
Net direct effects on the budget	0,00	0,00	-0,80	-0,40
Direct effects on the expenditures	0,00	0,00	0,80	0,40
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation of feasibility study for adoption of eco-criteria for goods and services				
Implementation	-	X	X	X
Net direct effects on the budget	-1,00	-1,00	-1,00	-1,00
Direct effects on the expenditures	1,00	1,00	1,00	1,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Implementation of projects according to the mechanism for clean development – the Kyoto Protocol				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	0,60	1,20	0,60	0,60
Direct effects on the revenues	0,60	1,20	0,60	0,60
Preparation of the second National Communication on Climate Changes				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-0,45	0,00	0,00
Direct effects on the expenditures	1,10	2,95	0,00	0,00
Direct effects on the revenues	1,10	2,50	0,00	0,00
Protection of the ozone layer – realization of the fifth stage of the project for protection of the ozone layer				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	2,50	1,50	0,00	0,00
Direct effects on the revenues	2,50	1,50	0,00	0,00
Implementation of the National plan for elimination and reduction of POPs – Elimination of PCB – polychlorinated bifenils in Macedonia				
Implementation	-	X		-
Net direct effects on the budget	0,00	0,00	0,00	0,00
Direct effects on the expenditures	0,00	4,80	6,00	3,60
Direct effects on the	0,00	4,80	6,00	3,60

revenues				
Preparation of spatial plans, in accordance with the Spatial Plan of Macedonia				
Implementation	-	X		-
Net direct effects on the budget	-1,00	-4,00	-4,00	-4,00
Direct effects on the expenditures	1,00	4,00	4,00	4,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Production, shaping, updating, distribution and presentation of spatial data, according to the new needs of the Ministry				
Implementation	-	X	X	X
Net direct effects on the budget	-0,50	-2,00	-2,00	-2,00
Direct effects on the expenditures	0,50	2,00	2,00	2,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Preparation and adoption of the Law on the standards in production, formation, verification, protection and distribution of spatial data				
Implementation	-	X	X	X
Net direct effects on the budget	0,00	-4,00	-2,00	0,00
Direct effects on the expenditures	0,00	4,00	2,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Judicial reforms</b>				
	2007	2008	2009	2010
Net direct effects on the budget	0,0	0,0	0,0	0,0
Direct effects on the expenditures	263,0	266,0	313,0	295,0
Direct effects on the revenues	171,0	187,0	173,0	80,0
Law on Public Prosecutors				
Implementation	-	X	X	-
Net direct effects on the budget	-12,00	-12,00	-12,00	-12,00
Direct effects on the expenditures	12,00	12,00	12,00	12,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Establishment of a Council of Public Prosecutors				
Implementation	-	-	X	-
Net direct effects on the budget	-18,00	-18,00	-18,00	-18,00
Direct effects on the expenditures	18,00	18,00	18,00	18,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Judiciary reform				
Implementation	-	X	X	X

Net direct effects on the budget	-62,00	-49,00	-110,00	-185,00
Direct effects on the expenditures	233,00	236,00	283,00	265,00
Direct effects on the revenues	171,00	187,00	173,00	80,00
<b>Health</b>				
Implementation	-	X	X	X
Net direct effects on the budget	-380,30	-386,50	-293,50	-294,00
Direct effects on the expenditures	655,30	656,50	413,50	414,00
Direct effects on the revenues	275,00	270,00	120,00	120,00
<b>Equipment for the healthcare institutions</b>				
Net direct effects on the budget	-24,00	-50,00	0,00	0,00
Direct effects on the expenditures	174,00	200,00	0,00	0,00
Direct effects on the revenues	150,00	150,00	0,00	0,00
<b>Improvement of the state of health of the population</b>				
Net direct effects on the budget	-115,00	-115,00	-115,00	-115,00
Direct effects on the expenditures	115,00	115,00	115,00	115,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Improvement of the specialized healthcare – public health</b>				
Net direct effects on the budget	-12,00	-14,00	-16,00	-18,00
Direct effects on the expenditures	12,00	14,00	16,00	18,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Improvement of the quality and planning of human resources</b>				
Net direct effects on the budget	-50,00	-60,00	-60,00	-60,00
Direct effects on the expenditures	50,00	60,00	60,00	60,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Improvement of the quality and planning of human resources</b>				
Net direct effects on the budget	-50,00	-60,00	-60,00	-60,00
Direct effects on the expenditures	50,00	60,00	60,00	60,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
<b>Improvement of the pharmaceutical services</b>				
Implementation	-	X	X	X
Net direct effects on the budget	-4,90	-5,50	-6,00	-6,00

Direct effects on the expenditures	4,90	5,50	6,00	6,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Improvement of the healthcare information system				
Implementation	-	X		-
Net direct effects on the budget	-9,50	-10,00	-11,00	-11,00
Direct effects on the expenditures	9,50	10,00	11,00	11,00
Direct effects on the revenues	0,00	0,00	0,00	0,00
Improvement of the healthcare reform				
Implementation	-	x		-
Net direct effects on the budget	-14,90	-22,00	-25,50	-24,00
Direct effects on the expenditures	139,90	142,00	145,50	144,00
Direct effects on the revenues	125,00	120,00	120,00	120,00
Protection from AIDS				
Implementation	-	X	X	X
Net direct effects on the budget	-100,00	-50,00	0,00	0,00
Direct effects on the expenditures	100,00	50,00	0,00	0,00
Direct effects on the revenues	0,00	0,00	0,00	0,00

## 6 MATRIX OF SUCCESSFUL IMPLEMENTATION OF THE REFORMS DEFINED IN THE 2007-2009 PEP

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
<b>4.1.1. Privatisation</b>				
Objective				
1. Completing the privatization process	Closing down the Privatisation Agency	yes	Oct. 2005	Realised
	• Transfer of unsold shares and parts managed by the Privatisation Agency	yes	Oct. 2005	Realised
	Completing the privatization of enterprises with social capital through the Macedonian Long-term Securities Stock	no	On going	Continuous
	• Privatisation in the social sector and the public administration	yes	On going	Privatisation of non-core activities
<b>Industrial Policy and Strategy</b>				
Improving the competitiveness of Macedonian industry and increasing of industrial production	Strategy for Development of the Textile Industry	yes	July 2007	
	• <i>National Strategy for Restructuring of the Steel Industry and its implementation</i>	yes	July 2007	The program will be implemented till 2009



Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
	Study for development of indicators for competitiveness of macedonian industry	yes	Postponed for 2008	
	• Strategy for industrial policy and its implementation	yes	Postponed for 2008	
<b>Foreign direct investments</b>				
Improving the investment climate and increasing of FDI	Program for stimulation for investments in RM (2007-2010)	yes	June.2007	
	• Implementation of the project Improvement of investment climate	yes	July 2007	
	• Implementation of the project stimulation of investments in RM	yes	2006	
	Implementation of the Project for reform of business environment and institutional strengthening (BERIS)	yes	Ongoing	
<b>Business environment and SME</b>				
1.Strengthening of institutional infrastructure	New business centers	yes	On going	By the end of 2007 3 new business centers will be established. In 2008 9 new business centers are envisaged..

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
	<ul style="list-style-type: none"> <li>Increasing the level and standards for training and trainers HRDF</li> </ul>	yes	To be continued in 2008	
	Strengthening of public-private dialog	yes	Continuous	
	<ul style="list-style-type: none"> <li>Strengthening of the capacity of SME Observatory</li> </ul>	no	2008	Postponed for 2008
	<ul style="list-style-type: none"> <li>Innovation center</li> </ul>	Yes	2008	The project for establishing Innovation center Skopje is approved by EC and will be the first project using the sources from the program for competitiveness and innovation
2.Improving business environment	<ul style="list-style-type: none"> <li>Registration and deregulation (cutting down duration and expenses)</li> </ul>	Yes	2007	Realized
	<ul style="list-style-type: none"> <li>Awareness raising for the importance of the European Charter for SME</li> </ul>	Yes	Continuous	
	<ul style="list-style-type: none"> <li>Improving e-services, e-communication and legislation for e-business</li> </ul>	Yes	Continuous	
3. Improving the access to finance	<ul style="list-style-type: none"> <li>Strengthening of the Guaranty fund and emission of guaranties</li> </ul>	No		Postponed for 2008
	<ul style="list-style-type: none"> <li>Alternative financial instruments</li> </ul>	yes	2007	3 investments funds are established

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
	• Establishment of private credit biro	Yes	On going	
	• Tax simplification	Yes	2007-2008	Flat tax introduced
Improving of entrepreneurs culture	• Incubators, clusters, innovation project, support of promotion	Yes	2007-2010	In 207 Youth Incubator was established in Skopje, and Bussiness start-up Center in Bitola
	• Strengthening of voucher system	Yes	2007	Voucher system continues in 2007 and on.
	• Support in establishing craftmen as family business	Yes	2007	Support through the Voucher system for consultant services for starting up family business
<b>Tourism and Catering Industry</b>				
Objective				
1. Building a well known image of the Macedonian tourism, competitive in the world trade.	• Promotions activities in the international trade of tourism.	Yes	continuing	During this year a successful promotion was done in Sofija, Istanbul, Berlin, Moscqu, Beograd, Pristine and Köln.
2. Initiating and developing the tourist offer.	• Preparation of the National Tourism Development Strategy.	Yes	2007	Adopted from the Governement in December.
3. Penetrating new tourist markets.	• Establishment of a National Tourist Organization.	No (after the strategy)	2008	
4. Rehabilitation and modernization of the existing hotels, apartments and other tourist places.	• Categorization of the catering industry facilities in harmonization with the existing Regulation. (Law on tourist	Yes	Continuing	Categorized 105 apartments.

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
	Activity)			
5. Presence of a well known brand for accommodation capacities.	• Giving locations for investments in international tenders.	Yes	2008-2010	One already realized in Skopje.
6. Development of tourism in the whole territory of the Republic of Macedonia.	• Support of the tourist offer based on traditional, natural, cultural and other values.	Yes	2007-2009	With the implementation of the Strategy for Tourist Development 2008-2012.
7. Enlarging the tourist season.	• Developing new ways of alternative tourism (rural, cultural, healthy, conferencial and others)	Yes	2007-2009	With the implementation of the Strategy for Tourist Development 2008-2012.
Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
<b>Financial system</b>				
<b>OBJECTIVES</b>				
1. Strengthening the insurance supervision area	Adoption of the Law on Amendments and Modifications to the Law on Insurance Supervision	Yes	2007	In the course of the year the Law on Amendments and Modifications to the Law on Insurance Supervision was prepared and adopted and published in the Official Gazette 79/07.

Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
	Establishment of Insurance Supervision Agency	No	End of 2007	All preparations of the Agency so as to begin with its operations are carried out and it is expected the Council of Experts to be appointed being the highest body of the Agency
	Strengthening the capacity of the Insurance Supervision Agency, through continuous education and training of supervisors, strengthening the transparency, establishing standardized supervisory approach and supervision procedures.	No	2006-2009	Taking into consideration the fact that the Supervision Agency is not still established, the realization of these objectives are not at the necessary level yet.
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
<b>Labour Market</b>				
Objective				
Increase of the employment rate	Support of first employment of young persons up to 27 years of age	Yes	Continuously in 2007	Operational Plan on Active Employment Measures for 2007
	Change of the existing regulation on the discontinuation of the relation between the health insurance and the insurance in the event of unemployment	No	End of 2007	Ministry of Labour and Social Policy and the Ministry of Health have elaborated proposals for modifications of the laws
	Support of Self-employment	Yes	Continuously	500 self-employments in 2007

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
	Need for skills analysis	Yes	Continuously	Regular activity of the EARM
	Twinning project for harmonization of the labour legislation	Yes	1st quarter of 2009	Twinning Partner has been selected

4.3.3 Social Security System				
Objective				
Promotion of the National Policy on Social Inclusion	Application of the Laekan Indicators by the State Statistical Office	No		This activity in accordance with the programme is projected for the period 2008-2009 within the State Statistical Office
	Establishment of inter-ministerial coordination body – plan for poverty reduction and social inclusion	No		Due to prolongation of the activities regarding “JIM”
	Development of for alternative forms of protection of the most vulnerable groups of citizens	Yes	Continuous	The activity is continuously implemented by extending the network of alternative forms of protection of the most vulnerable groups of citizens
Reduction of the Family Violence	Preparation of a National Strategy on Combating Family Violence	Yes	December 2007	The working version of the document is currently in its final phase
	Preparation of a protocol for cooperation between the following ministries: Ministry of Labour and Social Policy, Ministry of Interior, Ministry of Justice, Ministry of Health and NGO on determining the procedures in terms of the	Yes		The overall activities are planned to end by January 2008 at the latest

	protection of the victims of family violence			
Promotion of the exercise of the rights and services arising from social protection and social security	Preparation of a new law on social security	Yes	March 2007 – modifications of the law	The new Law social protection and social security is under preparation
	Adoption of a National Programme on Social Security	No		The activity has been postponed for the period following the adoption of the new Law social protection and social security
	Preparation of a National Programme on Deinstitutionalization	Yes	October 2007	The draft version of the document has been prepared
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
<b>Agriculture, forestry and water economy</b>				
OBJECTIVE				
1. Improvement of administration capacity for management of the state owned land	• Evaluation of the system for distribution of state owned land and procedures for land allocation and its utilization indicators	yes	IV quarter 2006	gradually in 2007
	• Introducing detailed records and IT database of state property/parcels (supported by cadastre parcels)	yes	2007	initial stage
	• Upgrading the procedures and enhancing the criteria for distribution of state owned land	yes	2007	Completed – regulated by the new Law on Agricultural Land
2. Development of market for agricultural land				
• Improvement of the on-farm efficiency	Study for agricultural land including	no		It has been foreseen for 2008

<ul style="list-style-type: none"> <li>and productivity</li> <li>● Improvement of the size of the individual farms</li> <li>● Improvement of the utilization of agricultural land</li> <li>● Improving the access to rural credit only if the registered agricultural land is treated as collateral</li> </ul>	analyses of the scope and reasons for abandonment of land and preparation of policy measures to decrease of the uncultivated agricultural land			
	Adopting new Law on Agricultural Land and amendments of other legal acts to create functional market of agricultural land	yes	end of 2007	The Law was adopted on 1 November 2007
	Establishment of completely digitalized vineyards cadastre	yes	2007-2009	ongoing
	Introduction of agricultural land Register via digitalization of the cadastre data of the Geodetic Bureau.	yes	2007-2009	ongoing
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
<i>Agriculture, forestry and water economy</i>				
1.Rehabilitation of villages <ul style="list-style-type: none"> <li>● Changing the process of rural-urban migration</li> <li>● Promotion of balanced regional and economic development</li> <li>● Ensuring sustainable development of forests and wild life</li> </ul>	Diversification of economic activities in rural areas including promotion of rural tourism	yes	continue	gradually (IPARD plan)
	Programme on public goods investments (water supply systems, and drainage)	yes	continue	gradually (IPARD plan)
	Forestation and forest protection	yes	continue	gradually (IPARD plan)



	Policy on protection of wild life and hunting	yes	continue	gradually (IPARD plan)
2. Improvement of irrigation and drainage systems	Programme for support of agriculture infrastructure (improvement of irrigation and drainage systems)	yes	continue	gradually
3. Strengthening the competitiveness of agriculture households <ul style="list-style-type: none"> <li>● Modernization of production technology</li> <li>● Improvement of production quality</li> <li>● Improvement of farm yields</li> <li>● Compliance with the requirements of the environmental, veterinary and phyto-sanitary standards</li> </ul>	Establishment of common production capacities and protection signs	yes	2007	The Law on Agriculture and Rural Development has been adopted
	Amendments of the Law on support to agriculture development	yes	2007	
	Introduction of Good Agriculture Practise	yes	2007	IPARD plan, The Law on Agriculture and Rural Development

	Allocation of the agriculture funds: traditionally competitive production, non-traditional products, organic production, quality seedlings, and support to the producers associations.	yes	continue	IPARD plan, The Law on Agriculture and Rural Development
	Support to on-farm investments regarding equipment which is to be in compliance with EU	yes	continue	IPARD plan, The Law on Agriculture and Rural Development
4. Restructuring the agro-food processing industry <ul style="list-style-type: none"> <li>● Improvement of production systems in compliance with the safety requirements</li> <li>● Support to common market activities</li> <li>● Establishment of efficient vertical integration of the agriculture and food processing</li> <li>● Introduction of modern technologies</li> </ul>	Setting up Cooperation Council in agro-food sector for development of public-private dialogue	yes	2007	By the Law on Agriculture and Rural Development
	Programme on support of introducing systems of certification and registration (HACAP, certification of organic production, etc.)	yes	continue	By the Law on Agriculture and Rural Development
	Improvement and support to the vertical cooperation	yes	continue	By the Law on Agriculture and Rural Development

	Support to promotion and national participation in international agriculture fairs	yes	continue	By the MAFWE Development
	Support to investments in equipment and compliance with the EU legislation	yes	continue	By the MAFWE Development
5. Strengthening the agricultural markets <ul style="list-style-type: none"> <li>● Improvement of market chains</li> <li>● Support to market capacity investments</li> <li>● Promotion of systems and quality brands</li> </ul>	Transformation of the public enterprise “Agro-berza”	yes	continue	
	Development of National Programme on promotion of Macedonian ago-food production related to creating cognizable and protected national brands	yes	continue	
	Adopting Law on market organizations and agricultural products and appropriate by-laws for harmonization with EU legislation	yes	completed	By the Law on Agriculture and Rural Development
	Support to the process of setting up producers associations	yes	completed	By the Law on Agriculture and Rural Development

	Promoting joining of farmers into cooperatives	yes	continue	By the MAFWE Development
	Support to strengthening the wholesale markets in cooperation with the local self-government and potential beneficiaries) farmers, their associations and traders)	yes	continue	Initial activities are being implemented by support of PE Agroberza
	Support to the investments in producers associations due to offer concentration (storage capacities)	yes	continue	By the MAFWE Development
4.5 Agriculture, forestry and water economy				
6. Strengthening the agriculture institutions	<ul style="list-style-type: none"> <li>To establish instruments and mechanisms for implementation, monitoring and assessment of policies for agriculture and rural areas development</li> <li>To create efficient institutions for designing, implementation and application of CAP</li> </ul>	Development of new institutional and organizational image of MAFWE	2006	completed, the MAFWE Systematization has been adopted
		Building MAFWE capacities on design and implementation of policies	2007-2009	gradually
		Restructuring of NEA	2007-2009	gradually
		Establishing of Paying Agency	2007-2008	The Law on Agency for Development of Agriculture and Rural Development adopted, 1 July

				2007, gradually
		Strengthening the agriculture inspection, veterinary and phyto- sanitary services	2007-2009	gradually
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
4.4. Veterinary				
OBJECTIVE				
1. Approximation of national veterinary legislation with the relevant EU legislation	- The changes and amendments and the Law on Identification and Registration has been adopted	yes	2007	The Law was published in Official Gazette 81/07
	- Adopted: Programme on suppressing and eradication of cattle tuberculosis, Programme on suppressing and eradication of cattle brucellosis; Programme on suppressing and eradication transitive spongiform encephalopathies -TCE	yes	2007	Official Gazette 22/07
	- Drafted and adopted Rulebook on urgent actions in case of contagious animal diseases	yes	2007	Official Gazette 82/2007
	- The Law on Veterinary Health has been adopted	yes	2007	Official Gazette 113/07
	- Law on by-products of animal origin has been adopted	yes	2007	Official Gazette of RM113/07

- Law on Animal Welfare has been adopted	yes	2007	Official Gazette of RM 113/07
- Law on Veterinary Health has been adopted	yes	2007	Official Gazette of RM 114/07
- Adoption of Programme of eradication of small ruminant brucellosis	yes	2007	Till the end of 2007
Programme on suppressing and eradication of cattle tuberculosis;	yes	2007	Official Gazette 22/07
Programme on suppressing and eradication of cattle brucellosis has been adopted	yes	2007	Official Gazette 22/07
- Programme on suppressing and eradication of Transmissible Spongiform Encephalopathies –TSE has been adopted	yes	2007	Official Gazette 22/07
- Drafted and adopted Rulebook on contingency in case of animal contagious diseases	yes	2007	Official Gazette 82/2007
- Adoption of by-laws from veterinary area complied with the relevant EU legislation pursuant to NPAA	no	2007	Foreseen according NPAA by the end of 2007
- Adoption of the Programme on	no	2007	Programme is in a process of

	eradication of small ruminant brucellosis.			adoption
2. Carrying out activities from the Programme of plant and animal protection	- The necessary tangible assets have been provided for implementation of Health Protection Programme	yes	2007	Activity accomplished
	- Contracts for implementation of Programme on suppressing and eradication of small ruminants brucellosis, Programme on suppressing and eradication of cattle brucellosis and tuberculosis;	yes	2007	Activity accomplished
	- Implementation equipment has been supplied for the Rulebook on contingency measures in case of animal diseases	yes	2007	Activity accomplished
	- Creating local contingency centres in case of animal disease.	no	IV quarter of 2007	Foreseen for the second half of 2007
3. Updating and expanding the identification and registration system to the animals	- Implementation of module for collecting blood samples, TBC and vaccination.	yes	2007	Successfully implemented activity
	- Data from the inventory of small ruminants entered into the computer database,	yes	2007	Successfully implemented activity

	- Updating the I&R database with the inventory of small ruminants farms	yes	2007	Successfully implemented activity
	- Provision of necessary means (ear marks) to implement the I&R system of the small ruminants.	yes	2007	Successfully implemented activity
4. Strengthening the capacity of the Veterinary Directorate	Carried out trainings of veterinary inspectors during the seminars and workshops in compliance with the strategic plan	yes	2007	Successfully implemented activity – trained staff
	- Carried out theoretical training of the veterinary inspectors on border posts in RM	yes	2007	Successfully implemented activity – trained staff
	- Part of the training foreseen by Programme of education and professional development of the Veterinary Directorate employees	yes		Ongoing activity, it will be completely implemented by the end of 2007
	Food Safety Project;	yes		Successfully implemented activity – trained staff
	- Training on hygiene requirements applicable in the food constructions of the SLR project – veterinary component.	yes		Successfully implemented activity – trained staff



5. Integrated border management project	- Trainings for strengthening the capacity of Veterinary Directorate.	no		According to the programme, they have been foreseen for the last quarter of 2007
	- Drafted programme on theoretical and practical training of the veterinary inspectors on border post,	no		According to the programme, they have been foreseen for the last quarter of 2007
		no		
	- Main part of the trainings within the Food Safety Project	no		According to the programme, they have been foreseen for the last quarter of 2007
	-Practical training of the veterinary inspectors on border post of R. Slovenia	no		According to the programme, they have been foreseen for the last quarter of 2007
	Preparation of a construction for building of veterinary and sanitary control on 4 work posts	yes	2007	Implemented in due time
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
OBJECTIVE OF THE POLICY				
Strengthening the agricultural institutions				
Strengthening the phytosanitary services	Strengthening the Sector for plant protection products	ongoing	III and IV quarter of 2007, and gradually in 2008	<ul style="list-style-type: none"> <li>- The Law on Plant Protection Products has been adopted.</li> <li>- There has been formed a Sector for plant protection within the Phyto-sanitary</li> </ul>

				<ul style="list-style-type: none"> <li>- Directorate Strengthening the human resources; the law is to be enforced by 1.01. 2008</li> </ul>
	Strengthening the Sector of plant health - phyto-sanitary inspection	yes	III quarter of 2007, and gradually in 2008	<ul style="list-style-type: none"> <li>- Strengthening the capacities.</li> <li>- Provision of laboratory and other equipment for the purpose of performing phyto-sanitary inspections according EU and international standards.</li> </ul>
	Establishment of system for tracing plant harmful organisms	no		<ul style="list-style-type: none"> <li>- establishing traceability system through out the whole territory</li> <li>- strengthened capacity regarding the human resources of 4 regional laboratories</li> <li>- provision of laboratory equipment</li> </ul>
	Regulating the trade and utilization of fertilizers	yes	III quarter of 2007, and gradually in 2008	<ul style="list-style-type: none"> <li>- Law on Fertilizers has been adopted.</li> <li>- Drafting regulation along with the provisions generating from the Law</li> <li>- Reorganization of the laboratory work and other legal entities involved in the same area.</li> </ul>
	Upgrading the State Phyto-sanitary	ongoing	2007, and gradually in	<ul style="list-style-type: none"> <li>- Strengthening the human</li> </ul>

	Laboratory on a level of Accreditation laboratory		2008	resources and further equipping of the laboratory
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Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
Rural Development Strategy				
OBJECTIVE Provision of sustainable development of forests and game in RM				
1. Forestation and protection of forests				
	Forestation of bare and eroded forest lands (2500 ha), nursing of forestry crops and amelioration of degraded forests and bushes (450 ha)	yes	2007-2009	In 2007, 820ha were afforested, care of forest crops, melioration of destroyed forest 150ha
	Forest protection against biotic and abiotic factors (strengthening the IDP service via provision of proper laboratory equipment equipment and setting up 5 meteorology stations)	no	2007-2008	Donor funds have not been provided in 2007
	Technical equipment for protection against fires by providing 37 special vehicles	yes	2007-2008	Donor negotiations are ongoing
	Creating information net and introduction of GIS technology and information system along with database	yes	2007-2009	Donor negotiations are ongoing
	Preparation of methodology for carrying out national forest inventarization of RM and its implementation	yes	2007-2009	FAO project has started
	Establishment of bioindicator plots	yes	2007	Out of 48 b.p. there have been set up 41 in 2007. The other ones will be additionally set up

	Drafting Master Plan for Forestry Management in the Republic of Macedonia	no	2007-2009	Donor funds have not been provided in 2007
2. Development of hunting and game protection				
	Development of hunting in the Republic of Macedonia	no	2007-2009	Budget funds have not been provided in 2007
	Improvement of the quality by re-introduction and introduction of game	no	2007-2009	2008r. A Study for introduction and re-introduction in the hunting grounds in the Republic of Macedonia is foreseen to be drafted

Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
<b>Road Transport</b>				
<b>Objectives</b>				
To continue harmonization with the acquis in the field of road transport and administrative capacity building for implementation of the Legislation in the road transport	Preparation of Law on Carriage of Dangerous Goods in the Road Transport	Yes	Published in Official Gazette 92/07	
	Preparation of new Law on Road Transport Safety	Yes	Published in Official Gazette 54/07	
	Strengthening the capacity for implementation of legislation in the road transport. Training for implementation of the legislation(Law on Road Transport Safety, Law on Carriage of Dangerous Goods in the Road Transport)		Training for implementation of legislation was held in September 2007 in Ohrid.	

Construction of sections of the Pan-European Corridors VIII and X	Construction of Skopje Bypass Phase I (K-8)	Yes	Will be completed in 2008, as envisaged in the plan.	In construction phase.
	Construction of Skopje Bypass Phase II (K-8)	Yes	Will be completed in 2008, as envisaged in the plan	In construction phase.
	Construction of Highway Kumanovo-Tabanovce	Yes	Loan Agreement with World Bank signed	Signing of construction agreement
	Construction of Highway Demir Kapija-Udovo-Smokvica			
	Completion of projects and construction of highway, border with R.Albania-Skopje-Border with R.Bulgaria			
Measures envisaged in the 2007-2009 PEP		<i>Accepted (YES/NO)</i>	<i>Date</i>	<i>Comment</i>
<b>Railway Transport</b>				
Objectives				
In order to perform transformation of PE "Macedonian Railways" C.O. Skopje it is necessary to prepare laws that	Preparation of draft Law for amending the Law on Railway Transport	yes	Published in Official Gazette 24/07	

will incorporate the "first and second package of directives" of the European Union	Preparation of draft Law on Railway Transport Safety	yes	Published in Official Gazette 40/07	
	Preparation of bylaws succeeding Law on Railway Transport Safety	yes	On going	
	Preparation of bylaws succeeding Law on Railway Transport	yes	On going	
	Preparation on draft Law on Contracts for Carriage by Rail	yes	Published in Official Gazette .55/07	
	Preparation of bylaws succeeding Law on Contracts for Carriage by Rail	No		No bylaws are envisaged in the Law
Institutional framework- Establishing the two new entities Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje.	Plan for dividing the capital, rights, obligations and employees of PE "Macedonian Railways" as well as Decision for establishing Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	yes	Published in Official Gazette 58/07	
	Adoption of the Statutes for the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	yes	2007	
	Stuffing and accommodation of the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	yes	The management structure is appointed in both entities.	

Institutional capacity building- Credit from the World Bank (Component 1 and 2)	Preparation of studies for the transformation as well as undertaking measures to decrease social consequences of the released employees	yes	For preparation of 3 studies, consultants are selected, and the preparation is ongoing.	Agreements are signed for preparation of Study for establishing a charge for access to the railway infrastructure, Study for public services in the transport of passengers by rail, Study of cutting down expenses and rationalization of the work. The selection of consultant for preparation of Study for privatization of the transport company is ongoing.
Institutional capacity building of the Ministry for Transport and Communications	Trainings for the civil servants from the Ministry of Transport and Communications	yes	Continuous	
	Establishing Department for railways and equipping with employees by modification of the Act for systematization of the Ministry of Transport and Communications	yes	In February 2007 new department for Railway was established in the Ministry of transport and communication	
Investments in infrastructure- Financing construction of a new railway as well as reconstruction, modernization, repair and maintenance of the existing railway	Preparation of dynamic national program for railway infrastructure for period of five years- National program.	yes	The Government adopted national program for railway infrastructure 2008-2012 in July 2007. The program is in parliamentary procedure.	
	Preparation of Annual Plan for construction, reconstruction, modernization, repair and maintenance of railway infrastructure	yes	The Program for investments in railways infrastructure 2007 is published in Official Gazette. 22/07, as well as its amendments published in Official Gazette 88/07	

Investments in Infrastructure-World Bank loan	Improvement of rolling stock as well as equipment for modernization of infrastructure	yes	Procurements are relised along with the World Bank plan	
Construction of infrastructure along Corridor X	Corridor 10 d: Rehabilitation of railway line Veles-Kremenica	yes	The Government decided to take into consideration the costruction od this line as a strategic priority.	

Air Transport				
Objectives				
Separation of the regulatory from operational functions of CAA in accordance with the Aviation Act of RM of 2006, obligation that is regulated in Multilateral Agreement for Establishment of Eueopan Common Aviation Area for harmonization with EU measures given in Annex I of the Agreement in order to strengthen administrative capacities and better define the competencies of different organizations that operate in the field civil aviation	Adoption of by laws	No	2007/IV	The adoption of by laws of the Aviation Law will be completed by the end of 2007
	Decision for establishing AD Makkontrol with Statute for establishment	No	Feb. 2007	Correction of the title of the bylaw <i>Decision for establishing JSC-ANSP with Statute for establishment</i>
	Decision for the amount of remuneration for the use of services in the air transport	No (in preparation)	2007/IV	Correction of the title of the bylaw <i>Decision for the remuneration and the payment method for air navigation services, and for determining the portion of this amount that will be used for financing the Agency</i>
	Decision for the part of remuneration from use of services that will be used for funding of the Agency	No (in preparation)	2007/IV	Correction of the title of the bylaw <i>Decision for determining the remuneration for safeguarding against</i>



	Decision for the part of remuneration from the use of airport infrastructure that will be used for funding of the Agency			<i>acts of unlawful interference at an airport and the use of airport infrastructure, and for determining the portion of this amount that will be used for financing the Agency</i>
	Preparation of balance for division of funds, employees, property, rights and obligation of CAA	No (in preparation)	2007/IV	On going
Joining Multilateral Agreement for Establishment of European Common Aviation Area in order to ensure common aviation market, liberalization of traffic right freedoms from the 1st until 9th as well as harmonization with EU regulation related to the air transport	Ratification of the Multilateral Agreement for Establishment of European Common Aviation Area	yes	„Official Gazette 27/07	
	Fulfillment of obligations from Protocol V from the Multilateral Agreement for Establishment of European Common Aviation Area	No	2009/IV	Envisaged in NPAA.
	Nomination of a slot-allocation in the Ministry of Transport and Communications	No (in preparation)	2007/IV	Ongoing
Full membership of Republic of Macedonia in the Joint Aviation Authorities (JAA) in order to fulfill the following obligations: for JAA, for ECAC.	<ul style="list-style-type: none"> <li>– Incorporating JAR FCL 3 and JAR 145 in the national legislation</li> <li>– Implementation of the above mentioned JARs by the civil aviation authorities and the industry</li> </ul>	Partly	Official Gazette 49/07	<p>A By law that transposes JAR 145 is adopted.</p> <p>In final phase of preparation</p>

Public Administration Reform				
Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
Goals				
Institutional improvement of the administration structures and strengthening of the administration capacities				
<i>Ensuring full implementation of the Law on Civil Servants, depolitisation of employments and career advancement of</i>	- Implementation of employment and promotion procedures in accordance with the Law on Civil Servants	partially	2006	As from 1 June until 1 September 2007 56 announcements for employment of 574 civil servants were published. In the

civil servants and other public administration employees and introduction of a merit system				course of that period 67 professional examinations for recruitment of 300 civil servants were conducted
	- Implementation of the Action Plan on Human Resources in the Authorities of the Republic of Macedonia (states, management, development and challenges)	partially	2007	Continuous implementation of the plan
	- Undertaking appropriate activities to accomplish suitable and equitable representation of the community members in the authorities where that was not accomplished		continuously	continuously
	- Establishment of organisational units for human resources in the authorities and introduction of a network for cooperation and coordination of the human resources units	Yes	2007	
	- Revision of the acts on organisation and systematisation of job positions, in accordance with the functional analyses and strategic plans	YES	2007	In the period from 1 September 2006 until 1 August 2007 the Civil Servants Agency gave 104 consents, 27 of which regarding the acts on internal organization and 77 regarding the acts on systematization of job positions.
	- Providing access to internet and e-mail for all civil servants	Yes	2007	accomplished
	- Introducing mechanisms on delegation of responsibilities of the head civil servants	Yes	2007	A project for implementation of this activity is underway
	- Providing an adequate personal registration software, as well as application thereof in the authorities	Yes	2007	A feasibility study was drawn up, the additional activities are underway
	- Drawing up of a Document on policies aimed at attracting and preserving young and highly educated employees in the civil service	Yes	2007	The Document was adopted by CSA

	- Adoption of a Regulation on Job Descriptions and a Regulation Amending the Regulation on Internal Organisation Principles of Authorities for 2007		2007	Adopted in published in the Official Gazette
	- Establishment of a Unit providing support to the training of civil servants in Skopje	Yes	2007	
	- Analysis of the civil servants evaluation process based on submitted reports to the Civil Servants Agency	Yes	continuously	
	- Implementation of a National system for coordination of the professional training of civil servants in RM and drawing up of a Programme on Professional Training of Civil Servants, including analysis of the necessary financial resources for the implementation thereof	Yes	2006,2007	
Economic area				
<i>Strengthening the legal security of economic entities. Acceleration of legislation procedures and revision of ownership rights.</i>	- Implementation of the judiciary reform – ensuring full implementation of the strategy and action plan on judiciary reform and ensuring independent and efficient judiciary.	Yes	continuously	continuously
	- Full systematization and computerisation of the information system of institutions involved in the implementation of the one-stop-shop system	Yes	2006	accomplished
	- Introduction of a single commercial register in electronic form	Yes	2006	accomplished
	- Drawing up a report on the undertaken activities including recommendations for further steps with reference to the separation of the non-core state functions by the Ministry of Justice in cooperation with the Ministry of Economy and the Ministry of Finance	Tes	2007	continuously
	- Continuation of the process of separating non-core functions (divesting) in areas such as homes for the elderly and student homes	Yes	2007	continuously

	- Introduction of a regulatory impact assessment procedure	Yes	2007	
Public finances				
<i>To adopt and implement consistent legislation for the whole scope of internal control which encompasses all relevant aspects of management responsibility, independent internal audit, harmonisation at central level, as well as prevention of fraud</i>	- Adoption of a Law on Public Internal Financial Control	Yes	2006	accomplished
	- Amending of the Law on Internal Audit in the Public Sector		2006	accomplished
<i>To complete the setting up of functionally independent units for internal audit in the central government institutions and to set up such units at municipality level. To strengthen the coordination role of the Ministry of Finance. To provide adequate staff, training and equipment</i>	- Setting up of units for internal audit in the remaining budget beneficiaries at central level	Yes	2006	
<i>To set up a Unit for Harmonisation of the Financial Management and Control within the Ministry of Finance</i>	- Adoption of a Systematisation Amending the Systematisation in MF whereby the Sector for Central Internal Audit will be restructured into a Sector for Public Internal Financial Control		2006	accomplished
<i>To develop efficient systems for management, control and audit necessary for implementation of the in accordance with the pre-accession EU instruments under the conditions of decentralised implementation.</i>	- Staffing and conclusion of contracts within the Unit for Central Financing within the Ministry of Finance		continuously	continuously
	- Drawing up of the basic rulebooks and procedures of the Payment Agency for Rural Development within the Ministry of Agriculture, Forestry and Water-Economy		2007	accomplished
	- Staffing of the Unit for Management of EU Funds		continuously	accomplished
	- Procurement of an integrated software solution to provide support to the treasury system, aimed at direct connection of the budget beneficiaries, funds and local government units with the treasury		2007-2008	the activities are underway
	To complete the setting up of functionally independent units for internal audit in the central government		continuously	32 units for internal audit at central level with 53 internal auditors of the

	institutions and to set up such units at municipality level; to strengthen the coordination role of the Ministry of Finance and to provide adequate staff, training and equipment.			envisaged 88 units have been set up so far. At local level out of the planned 42 municipalities with a population number exceeding 15, 000 27 units for internal audit were set up with 24 internal auditors
Reform of the local government and decentralisation				
<i>To strengthen the administration capacity at nation and local level and to initiate drawing up of strategic plans including financial strategies.</i>	Continuous trainings	YES	continuously	
<i>To complete the legal framework necessary for implementation of the decentralisation process and further implementation of the strategy on equitable representation of minorities in the public administration and in the public enterprises.</i>	Submission of semi-annual reports on the implementation of the decentralisation process	Yes	continuously	
<i>To complete the decentralisation process and the further implementation of the strategy on equitable representation of minorities in the public administration and in the public enterprises.</i>			continuously	The information is available at the Government of RM
<i>To implement the recommendations of the State Commission for Prevention of Corruption, as well as further promotion of the coordination and cooperation of institutions in charge of law enforcement.</i>	Municipality administration and local government – continuous training on new and delegated responsibilities – designing of specialised trainings at local level		continuously	Following the generic trainings aimed at strategic planning in the local government until the end of 2007 specialised trainings on this issue will be conducted.
<i>To ensure further improvement of the management with public finances. It is of particular importance to conduct the fiscal</i>	Efficient implementation of the Law on Financing of Local Government Units		2007	
	Strengthening of the local government capacities for	Yes	2007	

<i>decentralisation and to persist with the decompression of the public administration payment structure.</i>	public finances management			
Transparency, ethics, efficiency and integrity of the public administration				
<i>To improve the transparency of the public administration</i>	Introduction of a Civil Journal – an innovative and efficient tool for improvement of the public service and combat against bureaucracy and corruption	Yes	2007	accomplished
	- Improvement of the portal services- introduction of a messenger service for direct access to the responsible persons for each request by the citizens; Setting up a contact centre for citizens who do not have internet access; setting up information centres/call centres in the ministries and authorities and other institutions	Yes	2006	A free phone line 15 111 was introduced
	- Improvement of the cooperation and electronic exchange of data between authorities	Yes	2006	Introduction of the G2G Portal, e-session and <a href="http://www.uslugi.gov">www.uslugi.gov</a>
	- Development of a system for management of tasks, decisions and information	Yes	2006	the activities are underway
	- Strategy on cooperation with the NGO sector	Yes	2006	accomplished
	- Preparation of a catalogue of the authorities and the services they provide to the citizens by the Ministry of Justice in cooperation with the Secretariat General of the Government and the Secretariat for European Affairs and connection of the information included in the catalogue with the <a href="http://www.uslugi.gov.mk">www.uslugi.gov.mk</a> service portal	Yes	2007	the activities are underway
	- Strengthening the capacities and resources for implementation of the Law on Administrative Inspection		2006	accomplished
	- Amending of the Law on Citizen Association and Foundations	Yes	2006	The drawing up of new text is underway (March 2008)

	- Adoption of bylaws regarding the Law on Free Access to Public Information	Yes	2006	accomplished
	- Creation and conducting of a campaign on acquainting the public with the protection of their rights before the courts in accordance with the changes introduced in the judiciary	Yes	2006	A campaign was conducted relating to the Law on Dispute Procedure, the Law on Execution and the Law on Mediation
	- Increasing the awareness of the public regarding the Ombudsman as a potential mechanism who acts upon requests concerning corruption of the public administration	Yes	2007	continuously
<i>To ensure efficient implementation of the Code of Ethics of civil servants.</i>	- Revision of the existing rules and procedures and identification of possible improvements of the current system which is defined by the Law on Civil Servants and refers to the ethic conduct	Yes	continuously	Adopted amendments to the Code of Ethics
	- Drawing up of a Code of Ethics for ministers and holders of public functions appointed by the Government of RM by the Ministry of Justice	Yes	2007	An initial draft-version was drawn up
	- Training of civil servants on reporting suspicions for cases of corruption	Yes	2007	
	- To introduce provisions in the Codes of Conduct for all civil servants on reporting suspicions of corruption	Yes	2007	
<i>To ensure adequate cooperation of all authorities with the Ombudsman and to improve the adherence to his recommendations</i>	- Improvement of the cooperation between the authorities and the Ombudsman	Yes	continuously	A mechanism providing information to the Government by quarterly reports on the actions undertaken by authorities upon Ombudsman's cases was launched.
	- Report by the authorities to the Government with reference to the Ombudsman's recommendations on a trimester level		2006	The trimester reports are regularly analysed by the Government

To establish transparent and responsible local administrations and to develop internal controls and audits in the management of decentralised funds.	- Adoption and implementation of rulebooks and other acts of local government units in accordance with the Law on Civil Servants		2006	accomplished
	- Supervision of the law enforcement		2006	accomplished
	- Adoption of a five-year training strategy		2006	accomplished
	- Conducting trainings based on the Training Strategy		2006-2010	continuously
Measures envisaged in the 2007-2009 PEP		Accepted (YES/NO)	Date	Comment
<b>Environment</b>				
GOAL	Measures			
1. Integration of environmental issues into other relevant sector policies towards establishment of sustainable development; Introduction of a system for integrated pollution prevention and control (IPPC);	Development and adoption of the National Strategy for Sustainable Development with Action Plan of the Republic of Macedonia;	Yes	2007-2008	The Strategy should be completed by the end of the first quarter of 2008
	Strengthening of the IPPC unit under the MEPP and the corresponding units in the local self-governments, including increased staff and their training;	Yes	2007-2009	New employments in the fourth quarter of 2007 / completed training in 2007 within CARDS 2004
	Preparation of manuals and procedures to facilitate the processes of preparation of and application for integrated environmental permits;	Yes	2007	Completed in 2007 within CARDS 2004
	Handling of applications for integrated environmental permits and process supervision;	Yes	2007-2009	The process of handling applications for issuance of integrated environmental



				permits started in 2007
2. Improvement of the national system and procedures for environmental impact assessment;	Preparation and adoption of administrative procedures/regulations on EIA implementation;	Yes	2007	Completed in 2007 within CARDS 2004
	Strengthening of capacities in relation to EIA on both central and local levels – training;	Yes	2007	New employments in the fourth quarter of 2007 / completed training in 2007 within CARDS 2004
3. Institutional strengthening of the MOEPP;	Establishment of Administration of Environment;	Yes	2007-2009	Established under the new Act on systematization of posts in 2007. New employments in the fourth quarter of 2007
	Strengthening of the MEPP in relation to the establishment of decentralized implementation system/ policies creation and implementation;	Yes	2007-2009	New employments in the fourth quarter of 2007 / completed training in 2007 within CARDS 2004
	Strengthening of the capacity of the Inspectorate of Environment;	Yes	2007-2009	Lack of financial resources
4. Implementation of the National Plan for POPs elimination and reduction;	Elimination of PCB in the Republic of Macedonia;	Yes	2007-2008	The Project for PCB elimination should be approved for funding by the Global Environmental Facility (GEF) by the end

				of 2007. Practical implementation expected in the period 2008-2010
	Upgrading of the incinerator for medical waste in the Public Enterprise "Drisla";	Yes	2007-2008	The Project was not approved by GEF
5. Public awareness increase;	Education in environment – green package;	Yes	2007-2008	The Project is implemented within project activities (donation by Austrian Government)
6. Air quality improvement through reducing the emissions of the basic pollutants from the relevant sectors;	Preparation of plan and programme for ambient air quality protection;	Yes	2008	/
	Development of Cadastre of Air Polluters and Pollutants;	No	2009	/
	Elaboration of assessment for the Republic of Macedonia joining the Protocols to the CLRTAP;	No	2007-2008	The measure was not implemented due to the lack of funding during 2007
7. Strengthening the process of air quality monitoring and assessment;	Implementation of the Strategy for monitoring system and data management;	Yes	2007-2009	This measure is implemented through other ongoing activities and projects of the Ministry
8. Establishment of integrated monitoring and data management;	Establishment of national and local air monitoring networks;	Yes	2007-2009	This measure is implemented through other ongoing activities and

				projects of the Ministry
	Upgrading the air monitoring system – five new automatic monitoring stations;	Yes	2008	/
	Upgrading of the system for automatic data collection by procurement of software for automatic data validation from the air monitoring system;	No	2007	The measure was not implemented due to the lack of funding during 2007
9. Implementation of Kyoto Protocol	Implementation of projects under the Clean Development Mechanism;	Yes	2007-2009	The implementation of donor project supported by the Italian Government started
10. Fulfilment of the obligations under the UNFCCC;	Development of the Second National Communication on Climate Change;	Yes	2007-2009	Ongoing project within the Ministry - donation by GEF/UNDP
11. Ozone layer protection;	Implementation of the fifth phase of the ozone layer protection project	Yes	2007-2008	Ongoing project within the Ministry - donation by UN, Multilateral Fund
12. Establishment of an integrated waste management system;	Implementation of the Waste Management Plan;	Yes	2007-2009	This measure is implemented through other ongoing activities and projects of the Ministry
	Development of local plans and for municipal and other types of non-hazardous waste management;	Yes	2007-2009	The MEPP, under the Investment Programme for 2007, supported the development of Waste Management Plans and on

				local level
	Upgrading of the Cadastre of polluters of waste water and solid waste;	No	2008	/
13. Harmonization of the national legislation with the EU one;	Development of secondary legislation;	Yes	2007-2009	High number of bylaws deriving from the Law on Waste Management have been drafted and adopted
14. Improvement of waste management infrastructure;	Development of Feasibility Study and other technical documentation for regional landfills;	Yes	2008-2009	The MEPP provided funds in 2007 (Investment Programme) for the development of Feasibility Studies for two regional landfills - Skopje and Polog Regions, respectively
	Termination and revitalization of illegal dumping sites, and development of transitory landfills;	Yes	2007-2009	The MEPP supported financially activities concerning reclamation of municipal and closure of illegal waste dumping sites through its budget for 2007 (this measure will continue to be implemented in 2008 and 2009)
15. Establishment of waste monitoring network;	Preparation and ongoing upgrading of plans for waste monitoring on both central and local levels;	No	2007-2009	The measure was not implemented due to the lack

				of funding from the budget for 2007
16. Rehabilitation and revitalization of industrial hot-spots;	Development of and projects for industrial hot-spots and funding provision;	Yes	2007-2009	Project implementation under CARDS 2006 Programme, and financial support for the physical implementation of projects concerning industrial hot-spots (remedial of SASA diversion tunnel)
17. Waste water treatment;	Construction of waste water treatment systems and sewerage networks;	Yes	2007-2009	Implementation of partial project (low budget and activities) in line with the resources provided by the budget for 2007. Major capital projects have not been implemented during 2007 (donations have not been secured, nor budget funding for these purposes)
18. Establishment of a system for integrated water resources management;	Establishment of Administration for Waters; (strengthening of capacity for water management)	No	2008	It will be established upon the adoption of the new Law on Waters
	Preparation of national strategy for waters, as well as plans for integrated river basin districts management;	No	2007-2009	These documents will be developed upon the adoption of the new Law on Waters and provision of required finance

19. Establishment of ground waters monitoring;	Development of ground water monitoring programme	No	2008	/
20. Establishment of an integrated system for nature protection and biodiversity preservation, in accordance with the EU standards and international agreements;	Development of Nature Protection Strategy;	Yes	2007-2008	Development of the Strategy will commence by the end of 2008
	Development of Red List and Red Book;	No	2007-2008	Financial resources for the documents development have not been provided (the project has been planned for donation based implementation)
	Revalorization of natural heritage and its categorization;	Yes	2007-2009	Implementation of several activities for revalorisation and valorisation have been implemented under the budget of the MEPP for 2007
	Development of National Monitoring Programme for biodiversity components and indicators of biodiversity;	No	2008	/
	Preparation of documentation and analysis for NATURA 2000 establishment;	No	2008	Preparatory activities for the project implementation have been completed during 2007

	Afforestation and development of sites and eco-corners;	Yes	2007-2008	This measure is implemented under the fiscal budget of the MEPP
21. Integrated management of National Parks;	Development of plans for National Parks Management;	No	2007-2009	Lack of funding
22. Development of integrated pollution prevention and control system;	Development of secondary legislation and manuals for the systems and software for A permits register;	Yes	2007-2008	The activity has been implemented within CARDS 2004
23. Strengthening the administrative capacities with regard to the implementation of the procedures for integrated environmental permits (IPPC);	Strengthening the IPPC unit under the MEPP including enhancement of the capacity of environmental inspectors and local self-government;	Yes	2007-2009	Реализирање на нови вработувања во четврти квартал на 2007 година / реализирана обука во 2007 година во рамките на CARDS 2004
24. Establishment of national legislation for integrated chemicals management;	Development of analysis and plan in the area of chemicals - institutional component - technical component;	No	2007-2009	This measure was supposed to be implemented through donation by the Swedish Government (Programme on Chemicals), The implementation will commence by the end of 2007 through coordination by the Ministry of Health
	Adoption of Law on Chemicals and secondary	Yes	2007	The Law was adopted in

	legislation drafting;			2007 (Ministry of Health)
	Definition and establishment of competent authority for chemicals management;	No	2008-2009	This measure was supposed to be implemented through donation by the Swedish Government (Programme on Chemicals), The implementation will commence by the end of 2007 through coordination by the Ministry of Health
25. Safe management of genetically modified organisms (GMO);	Strengthening of institutional and human capacities for GMO management;	No	2007-2008	This measure will be implemented upon the adoption of the Law on GMO (end of 2007)
	Establishment of CCB clearing house for biosafety;	No	2009	/
	Implementation of the measures under the national biosafety framework;	No	2007-2009	This measure will be implemented upon the adoption of the Law on GMO (end of 2007)
26. Adoption of legislation in this field;	Development of Law on GMO and secondary legislation;	Yes	2007-2009	The adoption of the Law on GMO has been scheduled by the end of 2007
27. Establishment of a noise management	Adoption of Law on Noise and secondary legislation	Yes	2007-2009	The Law on Noise was



system;	drafting;			adopted in the third quarter of 2007. Secondary legislation under this Law will be drafted during 2008 and 2009
28. Prevention and reduction of noise causing harmful effects on human health;	Development and implementation of programme for noise levels measurement and monitoring and improvement of the monitoring, as well as reporting system;	No	2007-2008	This measure will commence its implementation in 2008, as the Law on Noise was adopted in the third quarter of 2007
29. Implementation of the Spatial Plan of the Republic of Macedonia;	Development of spatial plans; <i>Изработка на просторни планови</i>	Yes	2007-2009	The measures have been implemented within the constraints of the financial resources allocated by the fiscal budget of the Ministry (lack of sufficient funding to implement all activities has been identified)
30. Promotion of the GIS	Implementation of current GIS activities.	Yes	2007-2009	The measures have been implemented within the constraints of the financial resources allocated by the fiscal budget of the Ministry (lack of sufficient funding to implement all activities

				has been identified)
<b>Judiciary reform</b>				
ЦЕЛ				
Implementation of the laws in the judiciary	Adoption of the Law on Public Prosecution	No		There is no agrrement between political parties in the Parliament
	Adoption of the Law on Council of Public Prosecutors	No		There is no agrrement between political parties in the Parliament
	Preparations for executing trainings anticipated with the Law The Academy for training of judges and public prosecutors when the Academy becomes operational	Yes		Continuisly, Initial training started in september 2007
	Preparation of amendments to the Law on Criminal Procedure in accordance with the data obtained from the analysis of the provisions of the Criminal Code	Still no adpoted by the Parliament, There were passed by the Government		
	Monitoring of the implementation of the Law on Mediation and the Law on Notary Activities	Yes		Employed 6 new civil servants in te Sector responsible for control of the work of bailiffs and Notary

	Preparation of the Strategy for informational technology in judicial system in the Republic of Macedonia	Adopted by the Government	II/2007	
	Modernization of the information technology in the judiciary within the framework of The World Bank loan	Ongoing process		
<b>HEALTH</b>				
1. Improvement of the health condition of the population, with a special emphasis on the vulnerable groups				
GOAL				
1. Improvement of the health of newborns, infants and school children, especially regarding the Romany population	- strengthening of the primary health care, including the district health nursing services,	Yes	continuously during the whole year	
2. Provision of quality health education due to adoption of healthy lifestyles	Development of intersectoral cooperation between the health and educational institutions, the local government, the media etc./ establishment of interdepartmental working groups	Yes	continuously during the whole year	
3. Improvement of the population's mental health	Separation of the existing mental health centres from the existing health institutions and establishment of new mental health centres	Yes	continuously during the whole year	
4. prevention of the most frequent chronic non-contiguous diseases and adoption of healthy lifestyles	Adoption of a National plan for prevention and early diagnosing of breast cancer	Yes	Adopted by the Government in December 2006	
	Programme on Reproductive Health	Yes	Programme on early diagnosing and prevention of the diseases of	

			women's reproductive organs for 2007 (Official Gazette of RM No 41/2007)	
5. decreasing the number of injuries, disability and death caused by accidents and violence	- intersectoral cooperation regarding the alteration of the behaviour of individuals and ensuring safer environment	Yes	continuously during the whole year	2006- Published report on violence and health
6. strengthening of the emergency medical service and development of the trauma service	Introduction of a unified dialling number 112	Yes		
2. Improvement of the health care organisation/ establishment of nationally specific health management system				
GOAL				
1. Provision of initial availability, primarily of the vulnerable groups to all the basic health services and target preventive measures	- full inclusion of the population in the basic package of health services within the health insurance,	Yes		the basic package of health services is being defined
	- strengthening the cooperation of doctors providing primary health care (PHC) and the families and schools	Yes	continuously	
	- establishment of cooperation and functional connection of PHC with the higher levels of health care.	Yes	continuously	
	- Reorganisation of the specialist and consulting services and hospitals in order to ensure efficient utilisation of the diagnostic equipment and staff and to avoid duplication of procedures	Yes	continuously	
	- Development of daily hospitals and ambulant solution to health problems	Yes	continuously	
	- Development of new forms of institutional care – nursing homes for chronically ill patients lying in bed or in the terminal phase, where the focus is not put on treatment, but on nursing	Yes	continuously	
	Continuation of the privatization process of PHC	No	2007	the process is terminated
	Strengthening the leading and management system of hospitals (health management is to be	Yes	2007	

	introduced)			
3. Improvement of the specialised health care Public health				
GOAL				
1. Improvement of the specialised health care	- Development of the system for gathering and analysis of data, as well as the process of planning, monitoring and assessment of the health care activities in the public health area.	Yes	continuously	
	- adoption of a Strategy for improvement of the health of the adolescents and the young people.	Yes	2007	the draft version of the Strategy is being elaborated on
	- implementation of the activities relating to the Strategy on Health, Healthy Living and Working Environment and Worksafety in the Republic of Macedonia/ strengthening of the system for protection of workers' health and improvement of the health care quality, particularly by preventive activities.	Yes	continuously	
<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
4. Improvement of the planning and quality of human resources				
GOAL				
1. Planning and quality of human resources	- harmonisation of the educational specialisation plans and for all the profiles of medical staff with the European curricula.	YES	continuously	

<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
5. Improvement of the health care quality				
GOAL				
Improvement of the health care quality	- Decreasing of excessive use or abuse of medical treatment	Yes	continuously	
	- Adoption of a Law on Patient Rights Protection	Yes	2007	II phase/ Assembly procedure
	- Conducting of continuous education		continuously	
	- Improvement of the technical and administrative capacity of the State Sanitary and Health Inspectorate	Yes	continuously	
<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
6. Improvement of the health care financing				
GOAL				
1. Improvement of the health care financing	- strengthening and reorganisation of the Health Insurance Fund (HIF)	Yes	continuously	
	- improvement of the collection of health insurance contributions	Yes	continuously	
	- Improvement of the supervision by HIF of the health institutions budgets	Yes	continuously	
	- alteration of the manner of payment of the health institutions and transferring of the financial liability on to the service providers	Yes	continuously	
	- defining of the basic package of health services included in the health insurance	Yes		Underway
	- conclusion of contracts with service providers based on a prepared medical map and defined criteria for assessment of service	Yes		

	providers quality			
	- defining of reference medicine prices	Yes		A Law on Medicines and Medical Instruments was adopted
<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>

#### 7. Improvement of the pharmaceutical services

GOAL				
Providing the citizens with safe and quality medicines	- compiling of a new positive list based on the clinical protocols and guidelines	2006	continuously	New positive list approved and adopted by the MH and MC of HIF
	- defining of reference prices for medicines included in the list	2007		
	- improvement of the control on issuing of medicines	continuously		
	- strengthening the functions of the Bureau for Medicines	continuously		Pursuant to the Law on Medicines and Medical Instruments an Agency for Medicines is to be established
	- harmonisation of the existing legislation relating to medicines with the EU legislation	continuously		A new Law on Medicines and Medical Instruments was adopted
	- preparation of Guides on good pharmaceutical practice with determined standards	2008-2009		

<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
8. Improvement of the health information system				
GOAL				

<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
1. Implementation of a strategy for development of an integrated health information system	- completion of the information system in HIF	2006		
	- implementation of hospital information systems and creation of unified registers,	Yes		Underway
<i>Measures envisaged in PEP 2007-2009</i>		<i>Accepted(Yes/No)</i>	<i>Date</i>	<i>Comment</i>
9. Health care reform management				
GOAL				
1. Creation of capacities in the Ministry of Health for health care reform management	- strengthening the capacities for strategic planning and health policy creation, implementation of the legislation, monitoring and assessment	Yes	continuously	In accordance with the new systematisation of job positions in MH a Unit for Strategic Planning was established and a new Development Sector



## 7 ANNEX: TABLES

**Table 1a: Macroeconomic prospects**

	ESA Code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level (€)	Rate of change				
1. Real GDP at market prices	B1*g	308772	3,7	6,0	6,0	6,5	6,5
2. GDP at market prices	B1*g	308772	7,5	8,0	9,0	9,0	9,0
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	242005	5,0	7,1	7,0	6,2	6,5
4. Government consumption expenditure	P3	57559	2,3	4,0	4,0	4,0	4,0
5. Gross fixed capital formation	P51	56485	8,4	15,3	15,0	15,0	15,0
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	10763	0,5	2,0	2,0	2,0	2,0
7. Exports of goods and services	P6	149670	9,8	19,1	14,8	13,6	14,0
8. Imports of goods and services	P7	207709	10,5	18,0	15,1	12,0	12,0
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		516482	11,2	11,3	10,19	9,61	9,5
10. Change in inventories and net acquisition of valuables	P52+P53	10762	0,5	2,0	2,0	2,0	2,0
11. External balance of goods/services	B11	207709	16,8	18,0	15,1	12,0	12,0

**Table 1b: Price developments**

Percentage changes, annual averages unless otherwise indicated	ESA Code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1. GDP deflator		3,8	2,0	3,0	2,5	2,5
2. Private consumption deflator		3,7	1,9	2,9	2,4	2,4
3. HICP		n.a	n.a	n.a	n.a	n.a
4. National CPI change		3,2	2,0	3,0	2,5	2,5
5. Public consumption deflator		4,2	2,4	3,4	2,9	2,9
6. Investment deflator		6,8	5,0	6,0	5,5	5,5
7. Export price deflator (goods & services)		5,9	4,1	5,1	4,6	4,6
8. Import price deflator (goods & services)		6,9	5,1	6,1	5,6	5,6

**Table 1c: Labour markets developments**

	ESA Code	2006	2006	2007	2008	2009	2010
		Level	Rate of change				
1. Employment, persons 29		570404	4,6	4,0	4,0	4,0	4,0
2. Employment, hours worked30			n.a	n.a	n.a	n.a	n.a
3. Unemployment rate 31		36,0	-3,5	-4,17	-4,35	-4,55	-4,76
4. Labour productivity, persons32		382842	1,1	1,9	1,9	2,4	2,4
5. Labour productivity, hours worked33			n.a	n.a	n.a	n.a	n.a
6. Compensation of employees	D1	13517	7,3	6,5	7,5	8,0	8,5

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- 29 Occupied population, domestic concept national accounts definition  
 30 National accounts definition  
 31 Harmonised definition, Eurostat; levels  
 32 Real GDP per person employed.  
 33 Real GDP per hour worked.

**Table 1d: Sectoral balances**

Percentages of GDP	ESA code	2006	2007	2008	2009	2010
1. Net lending/borrowing vis-à-vis the rest of the world <sup>34</sup>	B.9	-5.9	-2.3	-4.2	-3.3	-2.6
of which:						
- Balance of goods and services		-19.8	-20.3	-24.2	-22.6	-21.3
- Balance of primary incomes and transfers		19.5	18.0	18.4	17.1	16.4
- Capital and financial account <sup>35</sup>		6.1	4.7	10.0	8.8	7.5
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of general government <sup>36</sup>		-0.6	-0.1	-1.5	-1.5	-1.5
4. Statistical discrepancy			optional	optional	optional	optional

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34 Financing of the Balance of payments.

35 Capital and financial account without official foreign reserves.

36 Central government fiscal balance.

**Table 2: General government budgetary prospects**

	ESA code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	2426	-0.8	-1.0	-1.5	-1.5	-1.5
2. Central government	S1311	1708	-0.6	-1.0	-1.5	1.5	1.5
3. State government	S1312	-1008	-0.3	-0.7	-1.2	-1.4	-1.4
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314		-0.2	-0.3	-0.4	0.0	-0.1
General government (S13)							
6. Total revenue	TR	117752	38.1	37.6	37.5	36.7	35.7
7. Total expenditure	TE	120178	38.9	38.6	39.0	38.2	37.2
8. Net borrowing/lending	EDP.B9						
9. Interest expenditure	EDP.D41 incl. FISIM	3364	1.1	0.8	0.6	0.7	0.7
p.m. 9a. FISIM							
10. Primary balance		2426	-0.8	-1.0	-1.5	-1.5	-1.5
Components of revenues							
11. Total taxes (11 = 11a+11b+11c)		62646	20.2	21.2	21.2	20.6	20.4
11a. Taxes on production and imports	D2	23298	7.5	8.0	8.1	8.0	7.8
11b. Current taxes on income and wealth	D5	35630	11.5	12.0	12.3	12.2	12.1
11c. Capital taxes	D91	3718	1.2	1.1	0.9	0.5	0.4
12. Social contributions	D61	30579	9.9	9.4	9.1	9.1	9.1
13. Property income	D4	5343	1.7	1.8	1.6	1.5	1.4
14. Other (14 = 15-(11+12+13))		19184	6.2	5.2	5.0	5.5	4.9
15 = 6. Total revenue	TR	117752	38.1	37.6	37.5	36.7	35.7
p.m.: Tax burden (D2+D5+D61+D91-D995)		n.a					



Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.



The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).



Including those collected by the EU and including an adjustment for uncollected taxes

**Table 2 (continued)**

	ESA code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	% of GDP				
Selected components of expenditures							
16. Collective consumption	P32	44447	14.4	14.8	15.0	15.1	14.8
17. Total social transfers	D62 + D63	49569	16.0	15.2	14.6	14.1	13.7
17a. Social transfers in kind	P31 = D63	n.a	n.a	n.a	n.a	n.a	n.a
17b. Social transfers other than in kind	D62	n.a	n.a	n.a	n.a	n.a	n.a
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	33.64	1.1	0.8	0.6	0.7	0.7
19. Subsidies	D3	6191	2.0	2.1	1.7	1.7	1.7
20. Gross fixed capital formation	P51	16607	5.4	5.7	7.1	6.6	6.3
21. Other (21 = 22-(16+17+18+19+20))		0	0	0	0	0	0
22. Total expenditures📁📁	TE	120178	38.9	38.6	39.0	38.2	37.2
p.m. compensation of employees	D1						

and social contributions (D995), if appropriate.



Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

<b>Table 3: General government expenditure by function</b>	<b>COFOG Code</b>	<b>Year 2005</b>	<b>Year 2010</b>
1. General public services	1	5885	n.a
2. Defence	2	5885	n.a
3. Public order and safety	3	8398	n.a
4. Economic affairs	4	15877	n.a
5. Environmental protection	5	368	n.a
6. Housing and community amenities	6	858	n.a
7. Health	7	613	n.a
8. Recreation, culture and religion	8	1471	n.a
9. Education	9	9869	n.a
10. Social protection	10	17103	n.a
11. Total expenditure (item 7 = 26 in Table 2)	TE	66327	n.a

**Table 4: General government debt developments**

Percentages of GDP	ESA code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1. Gross debt 41		33,5	26,1	25,2	23,9	22,5
2. Change in gross debt ratio		-6,2	-7,4	-0,9	-1,3	-1,4
<b>Contributions to change in gross debt</b>						
3. Primary balance42		0.5	-0.2	-0.9	-0.8	-0.8
4. Interest expenditure (incl. FISIM)43		1.1	0.8	0.6	0.7	0.7
5. Stock-flow adjustment		n.a	n.a	n.a	n.a	n.a
of which:						
- Differences between cash and accruals44		n.a	n.a	n.a	n.a	n.a
- Net accumulation of financial assets		n.a	n.a	n.a	n.a	n.a
of which:						
- Privatisation proceeds		n.a	n.a	n.a	n.a	n.a
- Valuation effects and other45		n.a	n.a	n.a	n.a	n.a
p.m. implicit interest rate on debt46						
<b>Other relevant variables</b>						
6. Liquid financial assets47		n.a	n.a	n.a	n.a	n.a
7. Net financial debt (7 = 1 - 6)		n.a	n.a	n.a	n.a	n.a

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41 As defined in Regulation 3605/93 (not an ESA concept).

42 Cf. item 10 in Table 2.

43 Cf. item 9 in Table 2.

44 The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

45 Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

46 Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

47 Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

**Table 5: Cyclical developments**

Percentages of GDP	ESA Code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1. Real GDP growth (%)	B1g	3,7	6,0	6,0	6,5	6,5
2. Net lending of general government	EDP.B.9	-0,6	-1,0	-1,5	-1,5	-1,5
3. Interest expenditure (incl. FISIM recorded as consumption)	EDP.D.41 + FISIM	1.1	0.8	0.6	0.7	0.7
4. Potential GDP growth (%) <sup>48</sup>		4,8	5,0	5,2	5,6	5,9
Contributions:						
- labour		n.a	n.a	n.a	n.a	n.a
- capital		n.a	n.a	n.a	n.a	n.a
- total factor productivity		n.a	n.a	n.a	n.a	n.a
5. Output gap		-1,1	1,0	0,8	0,9	0,6
6. Cyclical budgetary component		-0,3	0,2	1,0	1,2	1,5
7. Cyclically-adjusted balance (2-6)		-0,3	-1,2	-2,5	-2,7	-3,0
8. Cyclically-adjusted primary balance (7-3)		0.8	-0.4	-1.9	-2.0	-2.3

**Table 6: Divergence from previous programme**

	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
<b>1. GDP growth (% points)</b>					
Previous programme	4,0	6,0	6,0	6,5	6,5
Latest programme	3,7	6,0	6,0	6,5	6,5
Difference	-0,3	0,0	0,0	0,0	0,0
<b>2. General government net lending (% of GDP)</b>					
Previous programme	-1,0	-1,0	-1,0	-1,0	
Latest programme	-0,6	-1,0	-1,5	-1,5	
Difference	0,4	0,0	0,5	0,5	
<b>3. General government gross debt (% of GDP)</b>					
Previous programme	35,5	34,03	31,7	28,7	
Latest programme	33,5	26,1	25,2	23,9	

<sup>48</sup> Until an agreement on the Production Function Method is reached, Member States can use their own figures (SP).



Difference	0,0	-7,9	6,5	4,8	
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**Table 7: Long-term sustainability of public finances**

Percentages of GDP	2000	2005	2010	2020	2030	2040	2050
Total expenditure	36.6	36.2	34.0	33.0	33.0	33.0	33.0
of which:							
- Age-related expenditures	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Pension expenditure	4.6	5.3	4.1	3.5	4.1	3.6	3.1
- Social security pension	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Old-age and early pensions	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Other pensions (disability, survivors)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Occupational pensions (if in general government)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Health care	5.3	5.5	4.6	4.4	4.2	4.0	4.0
- Long-term care (this was earlier included in the health care)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Education expenditure	4.5	4.7	5.2	5.5	6.0	6.5	6.7
Other age-related expenditures	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Interest expenditure	1.62	1.12	1.07	n.a	n.a	n.a	n.a
Total revenues	34.1	36.6	32.5	32.0	32.0	32.0	32.0
<i>of which:</i> property income	n.a	n.a	n.a	n.a	n.a	n.a	n.a
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	7.0	6.6	6.4	5.6	4.9	4.7	4.7
Pension reserve fund assets	n.a	n.a	n.a	n.a	n.a	n.a	n.a
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
<b>Assumptions</b>							
Labour productivity growth	4.2	2.0	2.0	2.3	2.0	2.0	1.8
Real GDP growth	4.5	4.1	6.5	6.0	5.5	5.0	4.5
Participation rate males (aged 20-64)	71.7	72.0	74.0	75.0	77.0	77.0	78.0
Participation rates females (aged 20-64)	47.7	49.2	55.0	59.0	64.0	68.0	72.0
Total participation rates (20-64)	59.7	60.8	64.6	67.5	68.5	71.0	74.0
Unemployment rate	32.5	37.3	32	22	18	15	12
Population aged 65+ over total population		10.8	n.a	n.a	n.a	n.a	n.a

**Table 8: Basic assumptions on the external economic environment  
underlying the 2007 PEP framework<sup>49</sup>**

VARIABLE (annual growth rates in %, if not otherwise stated)	ASSUMPTIONS FOR								COMMENTS	
	Year 2006		Year 2007		Year 2008		Year 2009			Year 2010
		change*		change*		change*		change*		
Interest rates (in % p.a., annual averages)										
- Euro area: short-term interest rate (3-months money markets)	2.2		2.9		3.4		3.4		3.4	EU Commission's Autumn 2007 forecast
- Euro area: long-term term interest rate (10 year gov. bonds, Germany)	3.3		3.9		4.3		4.3		4.3	EU Commission's Autumn 2007 forecast
- USA: short-term (3 months money markets)	3.6		5.0		4.2a		4.2		4.2	EU Commission's Autumn 2007 forecast
- USA: long-term (10 year government bonds)	4.3		4.9		4.5		4.5		4.5	EU Commission's Autumn 2007 forecast
Exchange rates (annual average “-“: depreciation)										
Exchange rate vis-à-vis €	6.13		61.3		61.3		61.35		61.35	WEO
USD / €	1.24		1.22		1.22		1.22		1.22	EU Commission's Autumn 2007 forecast
Nominal effective exchange rate	6.13		61.3		61.3		61.35		61.35	
Real effective exchange rate **	0.2		0.3		0.2		N/a		N/a	
GDP (in real terms)										
- World, excluding EU	5.4		5.2		4.9	-0.1	4.9		4.9	EU Commission's Autumn 2007 forecast
- USA	3.05		3.2		2.7		2.7		2.7	EU Commission's Autumn 2007 forecast
- Japan	2.7		2.8		2.4		2.4		2.4	EU Commission's Autumn 2007 forecast
- EU 27	1.6		2.3		2.2		2.2		2.2	EU Commission's Autumn 2007 forecast
World trade (% change, goods)										
Country export markets										

<sup>49</sup> This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Council and the Commission together with the programme.

EU export markets, extra - EU (volumes)			8.8		7.7		7.9			EU Commission's Autumn 2007 forecast
World imports, excl. EU (volumes)			7.5		7.0		7.2			EU Commission's Autumn 2007 forecast
World import prices (for EU 27)			1.5		1.2		1.2			EU Commission's Autumn 2007 forecast
<b>International prices</b>										
World import prices (goods, in €)										
Oil Prices (Brent – level in USD/barrel)	54.1		68.9		71.0		76.0		76.0	EU Commission's Autumn 2007 forecast
Non-oil commodity prices (in USD, % change)	8.3		16.8		0.7		0.7		0.7	EU Commission's Autumn 2007 forecast

\*: change vis-à-vis assumptions made for last PEP

\*\*: please indicate type of calculation (number of currencies, type of price index for deflation)

## Annex 4

### ASSUMPTIONS ON THE EXTERNAL ECONOMIC ENVIRONMENT UNDERLYING THE SPRING 2007 FORECASTS

VARIABLE (annual averages)	2006	2007	2008
<b>Interest rates (in % p.a.)</b>			
euro area: short-term (3-months money markets)	2.2	2.9	3.4
euro area: long-term (10-year government bonds, Germany)	3.3	3.9	4.3
USA: short-term (3-months money markets)	3.6	5.0	4.2
USA: long-term (10-year government bonds)	4.3	4.9	4.5
<b>Exchange rates ("–": depreciation)</b>			
USD / € (level)	1.24	1.22	1.22
Nominal effective exchange rate of the euro area (% change)	-1.1	0.0	0.5
Nominal effective exchange rate of the EU (% change)	-1.0	-0.6	0.4
<b>Euro exchange rate: (levels)</b>			
Czech koruna	29.8	28.5	28.3
Danish krone	7.45	7.46	7.46
Estonian kroon	15.7	15.7	15.7
Cyprus pound	0.58	0.58	0.59
Latvian lats	0.70	0.70	0.70
Lithuanian litas	3.45	3.45	3.45
Hungarian forint	248	263	267
Maltese lira	0.43	0.43	0.43
Polish zloty	4.02	3.91	3.93
Slovenian tolar	240	240	240
Slovak koruna	38.6	38.2	38.5
Swedish krona	9.28	9.35	9.34
UK pound sterling	0.68	0.69	0.70
<b>GDP (in real terms, % change)</b>			
World, excluding EU (PPP terms)	5.4	5.2	4.9
USA	3.5	3.2	2.7
Japan	2.7	2.8	2.4
EU-27	1.6	2.3	2.2
<b>World trade (% change, goods)</b>			
EU export markets, extra-EU volumes)	9.0	9.8	8.1
World import volumes, excl. EU	8.1	9.6	8.2
World import prices (in USD)	6.0	4.1	2.0
<b>Commodity prices</b>			
Oil prices (Brent, USD/barrel)	54.1	68.9	71.0
Non-oil commodity prices (in USD, % change)	8.3	16.8	0.7

